Accountancy

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Professional Notes

"Convertibility" and Convertibility

IN DISCUSSING PRESENT PLANS FOR THE FUTURE OF STERLING IT IS WELL TO USE inverted commas round the word convertibility. For even if these plans succeed they will not bring a fully convertible pound, in the sense in which most ordinary people understand the term. At most what is now being aimed at is to allow sterling coming into the hands of non-residents in current transactions (that is, for exports of goods and services to this country) to be convertible into dollars. But neither non-residents nor residents would apparently be given greater freedom than at present to export capital from Britain, and all residents would be no more able than they are today to obtain dollars (or other foreign currencies) for sending abroad to pay for imports or for spending abroad on personal visits.

If "convertibility" came, nevertheless, one more step would have been taken towards convertibility, however far off might be the actual day when the Englishman could obtain dollars freely in exchange for his sterling. There are few who would not welcome convertibility of sterling, or "convertibility" as an instalment of convertibility, at the right time. But there are deep-seated differences of opinion on what is the right time. The Government now appears to be increasingly sympathetic to the arguments of the "liberal" school of economists who think the right time is very soon, and to the insistent Germans and Belgians who have so absorbed the thesis of the "collective approach to convertibility" propagated by Mr. Butler in 1952 that for some months they have been advocating very early action. It is to be hoped, however, that the approach will prove to be cautious as well as collective. We are still a long way from having gold and dollar reserves large enough to carry even "convertibility": it is a pre-condition not merely that there would have to be a supporting fund of dollars from the United States or the International Monetary Fund, but that the fund would have to be a large one. There is as yet little real indication of the emergence of "good creditor policies" in the United States—reductions in tariffs, removal of anomalous customs regulations and mitigation of "Buy American" Acts were recommended by the recent Randall Commission there, but President Eisenhower is having great difficulty in moving ever so modestly towards these objectives. Unless the United States becomes a good creditor, our scope for obtaining dollars in return for exports will surely be too restricted to allow the pound to achieve "convertibility." It is true that limited "convertibility" already holds in certain specific directions, particularly in the ability of foreigners to purchase non-ferrous metals from us, even if the metals have cost us dollars, and in the exchangeability into dollars of the restricted category of transferable sterling. But to allow non-residents complete freedom to obtain dollars for sterling is of a quite different order of things.

Accountants' Certificates for Solicitors

The Law Society has taken steps to ensure that accountants' certificates lodged by solicitors under the Solicitors Act, 1941, are more up-to-date. The requirement under Section 1(5) of the

Act was that a certificate should normally cover an accounting period which terminated not more than twelve months before the date of delivery of the certificate to the Registrar of Solicitors. A new rule made on April 30, 1954, by the Council of the Law Society under Section 1 of the Act reduces this period of twelve months to one of six months. The new rule is number 9A and is to be inserted after number 9 of the Accountant's Certificate Rules, 1946. It reads as follows:

> 9a. The accounting period specified in an accountant's certificate required to be delivered to the Registrar on or after the sixteenth day of November, 1954, shall terminate not more than six months before the date of such delivery.

The new rule is included in the Accountant's Certificate (Amendment) Rules, 1954.

The object of the amendment is to give further protection to the Law Society's compensation fund. In the opinion of the Council of the Law Society it is desirable that accountants' certificates should be delivered earlier in order that the Council may be made aware as soon as possible of any matters requiring investigation by reason either of the non-delivery of certificates or of qualifications attached to them by accountants.

The following examples illustrate the working of the Accountant's Certificate Rules as amended:

(1) *Solicitor's accounting year April 6 to April 5.*

For the practice year November 16, 1953, to November 15, 1954, an accountant's certificate for the accounting year April 6, 1953, to April 5, 1954, must be delivered not later than November 15, 1954.

For the practice year November 16, 1954, to November 15, 1955, an accountant's certificate for the accounting year April 6, 1954, to April 5, 1955, must be delivered not later than October 5, 1955. The position will be similar in subsequent practice years.

(2) *Solicitor's accounting year January 1 to December 31.*

For the practice year November 16, 1953, to November 15, 1954, an accountant's certificate for the accounting year January 1, to December 31, 1953, must be delivered not later than November 15, 1954.

For the practice year November 16, 1954, to November 15, 1955, an accountant's certificate for the accounting year January 1 to December 31, 1954, must be delivered not later than June 30, 1955. The position will be similar in subsequent practice years.

(3) *Solicitor's accounting year November 1 to October 31.*

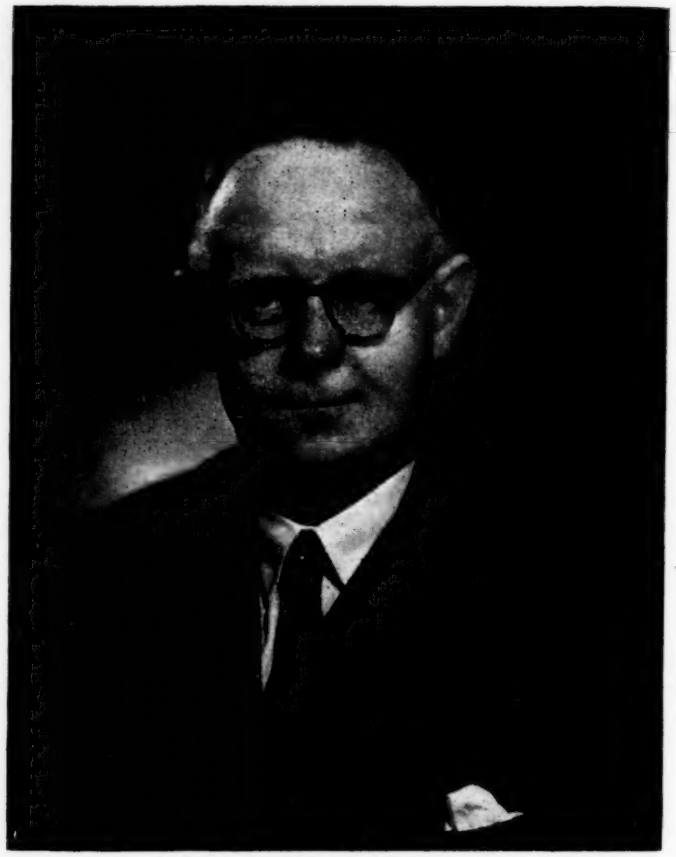
For the practice year November 16, 1953, to November 15, 1954, an accountant's certificate for the accounting year from November 1, 1952, to October 31, 1953, must be delivered not later than October 31, 1954.

For the practice year November 16, 1954, to November 15, 1955, an accountant's certificate for the accounting year November 1, 1953, to October 31, 1954, must be delivered not later than April 30, 1955. The position will be similar in subsequent practice years.

By another new rule in the Accountant's Certificate (Amendment) Rules, 1954, the Institute of Chartered Accountants in Ireland is added to the bodies whose members may give a certificate under Rule 3 (1) of the Accountant's Certificate Rules, 1946.

New Member of the Society's Council

The postal poll for the election of a member of the Council of the Society (see ACCOUNTANCY, June, pages 231-4) resulted as follows: for Mr. Charles Yates Lloyd, 2,916; for Mr. William Thomas Manning, 2,547.



MR. C. YATES LLOYD, F.S.A.A.

Mr. C. Yates Lloyd, the new member of the Council, is 53 years of age. He qualified in 1926, after serving as a clerk with Messrs. Fred Hargreaves & Co., Manchester, and commenced public practice in 1929. He was admitted to Fellowship of the Society in 1932, and became senior partner of his present firm, Lloyd, Piggott & Co., Incorporated Accountants, in 1944, when the old-established practice of Messrs. Arthur C. Piggott & Son was amalgamated with his own practice.

Mr. Lloyd was Honorary Auditor to the Manchester District Society from 1928 until his appointment as a member of the Committee in 1933. In 1939 he was appointed Hon. Secretary, and has continued to hold that office, except for the period from June, 1948, to June, 1950, when he was President. He served on the Incorporated Accountants' Research Committee for two years, and has lectured

extensively at meetings of the District Society and of other professional bodies in Manchester.

Throughout his life Mr. Lloyd has been interested in music. He is a member of the Committee of the Hallé Concert Society and Hon. Treasurer of the Hallé Club.

We have pleasure in reproducing a photograph of Mr. Yates Lloyd.

The Universality of Costing

During the second technical session of the recent twenty-fifth National Cost Conference of the Institute of Cost and Works Accountants at Southport the influence of the size of a business on costing technique was discussed in three papers. Papers were given by Mr. J. L. Hilton F.C.W.A., A.M.I.I.A., on the small concern, Mr. H. P. Court F.C.W.A., A.M.I.I.A., on the medium-sized concern, and Mr. J. A. Scott, C.A., F.C.W.A., A.M.I.I.A., on the large concern.

All three speakers emphasised the place of cost control aspect in modern techniques. They were in general agreement that the techniques are essentially the same for businesses of all sizes, only the degree and complexity of application being different. All the causes of cost variation will be present, regardless of the size of the business. In the smaller concern, control is exercised through direct personal communication and observation, but increasing size divorces management from detailed knowledge of circumstances and the dependence on cost reports increases accordingly. The development of the small into the medium concern is marked by the loss of this personal contact, as the need to delegate responsibilities grow, a fundamental change in outlook on the part of the management becomes necessary. The transition from medium to large concern is less well-defined, but usually involves some measure of decentralisation and consequent co-ordination.

Mr. Hilton considered that even the smallest business requires budgets, even though confined to expenditure only, and that this requirement leads logically to a simple form of standard costing. The degree of application should be limited to high-lighting that which is not reasonably manifest to management, and all "frills," for example, flexible budgets, calendar and revision variances, should be excluded. From this basic framework the costing system can be developed as the growth of the business demands.

Mr. Court stated that the medium-sized firm with its greater diversity of products and, often, alternative methods of production, needs to arrive at separate overhead rates and to express them in terms of the most suitable unit of output. Production services are treated as separate departments rather than as overheads, and the volume of output calls for close documentary control over operations.

In both the medium and large concerns, the divorce of ownership from management results in a weakening of the profit motive. It has to be replaced by incentives, and costing techniques have to be adapted to provide control statements at foreman level. These statements should include the apportioned charges for general and administrative overheads "below the line," so that foremen can appreciate the effects of changing volume of production on unit costs and profits.

Both Mr. Court and Mr. Scott saw dangers in the medium and larger firms arising from the need for specialist functions. Unless the quantities and costs of the services to be supplied by specialist executives are closely defined, there is a tendency for these services to become over-developed and to increase costs. They also diffuse the responsibility for costs. The speakers considered that there was a need for some restoration of the balance in favour of "general practitioners" who have a working knowledge of the basic principles underlying all the specialised functions.

Birthday Honours for Accountants

It gave pleasure to accountants to see that two prominent members of the accountancy profession were designated Knights Batchelor in the honours list marking the official birthday on June 10 of Her Majesty the Queen. They are Mr. Thomas Buston Robson, M.B.E., M.A., F.C.A., who is a member of the Companies Act Accountancy Advisory Committee of the Board of Trade, and Mr. John Livingston Somerville, C.A., F.R.S.E., who is President of the Institute of Chartered Accountants of Scotland in this centenary year of the Institute. We offer our congratulations to them both.

We have pleasure in congratulating two members of the Society: Mr. A. G. Mellor, B.COM., A.S.A.A., Chief Accountant of the National Sulphuric Acid Association, Ltd., on receiving the honour of the O.B.E., and Mr. James Butterworth, F.S.A.A., F.I.M.T.A., Borough Treasurer of Wigan, on the award of the M.B.E.; also Mr. William G. Ridd, F.A.C.C.A., F.C.I.S., Deputy Director of the Newspaper Society, who becomes a Member (Fourth Class) of the Royal Victorian Order; Mr. Gordon Miles, F.I.M.T.A., Comptroller of the London County Council, who is awarded the C.B.E.; and Mr. W. D. Gilchrist, C.A., Chief Accountant of the Scottish Industrial Estates, Ltd., who receives the M.B.E.

The Institute's New President and Vice-President

Mr. Donald Victor House, F.C.A., has been elected President of the Institute of Chartered Accountants in England and Wales. Mr. House became an Associate of the Institute in 1922, and a Fellow in 1929. He is the senior London partner in the firm of Harmood Banner, Lewis & Mounsey, Chartered Accountants, of London and Liverpool.

In 1939 Mr. House was elected a member of the Institute's London Members' Committee, of which he was Vice-Chairman in 1941-42. He became a member of the Council of the Institute in 1942, and has served on many of its committees. He was an examiner for many years and is now a moderator for the Institute's examinations. He is honorary secretary and treasurer of the Chartered Accountants' Golfing Society.

The new Vice-President of the Institute is Mr. William Speight Carrington, F.C.A., who is a partner in the firm of Whinney, Smith & Whinney, of London, Blackpool, Leeds and Manchester, and has been a member of the Council since 1942. Mr. Carrington is a member of the Royal Commission on the Taxation of Profits and Income.

The Design of Accounts

Professor F. Sewell Bray and Mr. H. Basil Sheasby, the co-authors, are proposing a thorough and complete

revision of the book *Design of Accounts*, the third edition of which was published for the Incorporated Accountants' Research Committee by the Oxford University Press in 1949. It is expected that this particular project will be a long-term one, as it is desired to make the revised book fully comprehensive for both internal and published accounts. It is hoped that all accountants familiar with special forms appropriate to particular industries and institutions will co-operate in this venture, and they are invited to submit specimen forms to Professor F. Sewell Bray, the Stamp-Martin Professor of Accounting, at Incorporated Accountants' Hall, for possible inclusion in the new work. All forms that are used will be specifically acknowledged in the text.

Institute of Municipal Treasurers

The sixty-ninth annual general meeting and conference of the Institute of Municipal Treasurers and Accountants were held at Bournemouth last month. The retiring President, Dr. A. H. Marshall, B.SC.(ECON.), PH.D., F.I.M.T.A., F.S.A.A., gave an address on the trend of local government and the financial dilemma of the local authorities. Papers were read by the Lord Greenhill, O.B.E., J.P., on *Do Rates Matter?*; by Sir Frank Tribe, K.C.B., K.B.E. (Comptroller and Auditor-General) on *Parliamentary Control of Public Expenditure*; and by Mr. W. O. Atkinson, M.B.E., F.I.M.T.A., on *Housing—The Changing Scene*.

Mr. T. L. Poynton, F.I.M.T.A., Borough Treasurer of Blackpool, was invested as the President for the coming year. Mr. T. R. Johnson, F.I.M.T.A., F.S.A.A., City Treasurer of Bristol, is the new Vice-President.

Borrowing by Local Authorities

Following the fall in Bank Rate last month, reduced rates for new loans to local authorities from the Public Works Loan Board took effect from June 4, 1954. The new rates are: for periods not exceeding five years, $2\frac{1}{4}$ per cent. (previously $2\frac{5}{8}$ per cent.); for periods exceeding five years but not exceeding 15 years, $3\frac{1}{4}$ per cent. (previously $3\frac{1}{2}$ per cent.); and exceeding 15 years $3\frac{3}{4}$ per cent. (previously 4 per cent.)

The changes reflect the rise in security prices since October last and are in line with the Government's policy of making loans available at rates corresponding to those at which it can itself borrow in the market.

Local authorities which borrow solely from the Board will benefit directly from the reduced interest charges. Other authorities, however, will continue to borrow from the market, preferring to remain free from the rigid conditions of the Board's advances. The requirement that loans may be borrowed only for the full period of the statutory borrowing power is especially irksome. Talks have been in progress for some time between the associations of the local authorities and the Treasury, with the aim of easing the conditions under which local authorities can borrow from the Board. Agreement has been reached in principle that loans should be for less than the sanctioned periods, with the proviso that in respect of grant-aided services the concession will not be allowed to involve the Exchequer in any increased liability arising from heavier loan charges due to the reduced borrowing period. The Treasury has undertaken to examine further proposals for defining the types of loan which may be raised for less than the sanctioned periods. The outcome will be awaited with interest.

Cambridge University Department of Applied Economics

The Department of Applied Economics of Cambridge University has issued its third report, covering the period July, 1951 to December, 1953. It is published in the *Cambridge University Reporter* for May 19.

The report records the election by the Council of the Society of Incorporated Accountants of Mr. F. Sewell Bray as first holder of the Stamp-Martin Research Chair of Accounting, tenable at Incorporated Accountants' Hall. Professor Bray has continued his work in the Department (in which he is a Senior Research Associate) on the accounting basis for the classification and measurement of transactions. Papers by him have appeared in *Accounting Research* and in the *Journal of the Statistical and Social Inquiry Society of Ireland*, and his books *The Accounting Mission* and *Four Essays in Accounting Theory* were published during the period.

Mr. Milton Gilbert of the Organisation for European Economic Co-operation, and the Director of the Department, Mr. Richard Stone, an honorary member of the Society, undertook a survey of "Recent Developments in National Income and Social Accounting," which was reprinted in *Accounting Research* for January, 1954.

Mr. A. A. Garrett, an honorary member and previously Secretary of the Society, has continued his analysis of college accounts.

Mr. Richard Stone is a member of a joint committee of the Society of Incorporated Accountants and the Royal Statistical Society to consider the applications of statistics in accounting and business management.

Luncheon to Colonel S. A. Medcalf

A very pleasant ceremony took place at Incorporated Accountants' Hall on June 22 at a luncheon given to Colonel S. A. Medcalf, O.B.E., T.D., D.L., by Mr. Bertram Nelson, the President of the Society of Incorporated Accountants. The gift to the Society of Capel House, near Enfield—announced in previous issues of ACCOUNTANCY—was formally made by Colonel Medcalf. We hope to publish an account of the proceedings in our next issue.

Cost and Works Accountants' Meetings

The retiring President of the Institute of Cost and Works Accountants, Mr. F. W. H. Saunders, F.C.W.A., addressing the recent National Cost Conference of the Institute, spoke of the need to maintain and enlarge our export trade in an increasingly competitive world. Unit costs must be reduced, but we must satisfy the claims of all those, whether wage-earners or shareholders, whose real income had fallen. To this end, increased productivity should be applied towards the reduction of prices. The Inland Revenue would also benefit.

Cost accounting had generally been confined to production. But it was equally necessary in administrative selling, and distribution. Cost accounting in selling and distribution would be the theme of the Institute's annual summer school to be held in Cambridge next September.

At the annual general meeting,

Mr. W. E. Harrison, F.C.W.A., was installed as President of the Institute of Cost and Works Accountants. Mr. Harrison practises as a consulting cost accountant in Walsall. He is a member of the Institute's Council and a past President of the Birmingham Branch, and has been a frequent lecturer to branches. From 1949 to 1953 he was chairman of the Research and Technical Committee. The new Vice-Presidents are Mr. Ian T. Morrow, C.A., F.C.W.A., and Mr. G. Nicholson, F.C.W.A.

Law Reform

Important and sensible changes in the general law have been made by two short Acts which came into force on June 4, 1954. Under English law contracts are normally enforced even though they were made only by word of mouth and the parties have done nothing to carry out their bargain. There were exceptions to this rule; in particular under Section 4 of the Sale of Goods Act, 1893, no contract for the sale of goods of £10 or more in value could be enforced unless the contract was evidenced in writing or there had been part payment or the buyer had accepted the goods. The Law Reform (Enforcement of Contracts) Act, 1954, has repealed this Section, and it has also repealed provisions in the Statute of Frauds, 1677, which made certain contracts unenforceable unless they were evidenced in writing. The Act applies to contracts made both before and after the commencement of the Act. Contracts of guarantee and contracts dealing with interests in law are not affected and will still need to be evidenced in writing.

The Law Reform (Limitation of Actions, etc.) Act, 1954, alters the time limits within which actions must be brought. The special protection given to public authorities and corporations is abolished. For actions under the Fatal Accident Act the time limit has been raised from one year from the death of the deceased to three years. On the other hand, claims for damages for personal injuries must now be brought within three years, whereas before six years was the normal limit. Courses of action which arose before the passing of the Act and had not then expired will expire at the time which they would expire either under the old law or under the new law, whichever time is the later.

Making Allowances . . .

Even allowing for the exhaustion of an all-night sitting the House of Commons did not show up very well in its debate on the investment allowances at the Committee stage of the Finance Bill. For misunderstandings, confusion and howlers on wear and tear allowances, obsolescence, the difference between investment allowances and initial allowances, the effects of these two allowances, and other matters in the professional accountants' intermediate examination papers, turn to *Hansard* of June 16. We do not expect our legislators, when creating such technicalities as the investment allowances, to be trained accountants, but surely we may expect them to obtain some expert advice before expatiating on these topics?

There were suggestions that the investment allowance should be increased for small businesses, industrial buildings, machine-tool makers, scientific instrument makers, processes economising on imported raw materials, exporters, shipbuilding, and what not. Finally it was agreed that it should apply (at the rate proposed in the Bill for buildings) to expenditure on preparing, cutting, tunnelling or levelling land for building. The Chancellor promised to look again before the Report stage at the arguments for strengthening the taxation incentive for capital expenditure on new industrial buildings and for removing the possibility that the Bill might allow a sur-tax payer to make a profit from the Inland Revenue by selling fixed assets after he had qualified for the investment allowance upon them.

Shorter Notes

Accountant's Fees Held Reasonable

Judge G. Howard recently held in the Southend County Court that a Chartered Accountant was justified in charging a client 18 guineas for the writing of 29 letters and attending before the Commissioners. The accountant had said in evidence that he aimed at charging 15s. an hour but his fee always worked out at less than that.

Accountability of Football Pools

It is exceptional for a private member's Bill to be enacted, but the Pool Betting Act, 1954, is one of the exceptions. Mr. F. W. Mulley's Bill, in its accounting provisions in particular, was commented upon in ACCOUNTANCY during its passage through the Commons—see our issues of March, 1954 (page 81); April, 1954 (pages 121-2); May, 1954 (page 162); and June, 1954 (page 205).

The Level of Local Rates

Local rates levied in 1954/55 were on average higher than in 1953/54 for all classes of local authorities. For county boroughs they were 23s. 2d. in the pound, against 22s. 9d.; for the Metropolitan boroughs of London 20s. 7d. (20s. 4d.); for non-county boroughs 23s. 9d. (23s. 3d.); for urban districts 23s. 11d. (23s. 4d.); and for rural districts 21s. 9d. (20s. 11d.). This information is given in *Return of Rates, 1954-55*, published by the Institute of Municipal Treasurers and Accountants at 6s., postage free. It provides details of the rates levied for the various services, both as absolute figures and per head of the population, and some additional statistics, for every authority in the various classes.

Institute of Arbitrators

Mr. J. R. W. Alexander, C.B.E., M.A., LL.B., has been re-elected President of the Institute of Arbitrators for 1954-55. Mr. Alexander was Parliamentary Secretary of the Society of Incorporated Accountants from 1927 to 1931. The report of the Institute for 1953 states that the Council is to promote a Bill to render void a provision in an agreement that one of the parties, or the employee or agent of a party, shall act as an arbitrator in a dispute under the agreement.

New Headquarters of Indian Chartered Accountants

We regret that in the Professional Note under this heading in our May issue (page 166) we said that the new headquarters of the Institute of Chartered Accountants of India at New Delhi had been opened by Mr. Nehru, the President of India. Mr. Nehru is the Prime Minister of India and the opening ceremony was performed by Dr. Rajendra Prasad, the President. By printer's errors the names of Mr. G. Basu, immediate Past-President of the Institute, and Mr. S. Vaish, its present President, were wrongly given as Mr. G. Baru and Mr. S. Vaich.

ACCOUNTANCY

FORMERLY THE INCORPORATED ACCOUNTANTS' JOURNAL. ESTABLISHED 1889

The Annual Subscription to ACCOUNTANCY *is £1 1s., which includes postage to all parts of the world. The price of a single copy is 2s., postage extra. All communications to be addressed to the Editor, Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2.*

The Scottish Centenary

WHEN ALEXANDER WEIR ROBERTSON, of Edinburgh, sat down on January 17, 1853, to write a letter to fourteen fellow accountants of that city, he could hardly have foreseen the far-reaching effects of his penmanship. He invited them to meet to discuss "some definite arrangement for uniting the professional Accountants in Edinburgh"—to such good purpose that a hundred years later there were more than 5,500 Scottish Chartered Accountants united in the oldest existing body of accountants in the world, the Institute of Chartered Accountants of Scotland. Mr. Robertson's initiative, though not the first attempt to bring together the professional accountants of Edinburgh—a flourishing community dating back at least to George Watson's going to Holland to learn book-keeping, "a very rare accomplishment," in the 1670's—led directly to the incorporation under Royal Charter of the Society of Accountants in Edinburgh in 1854. The accountants of Glasgow were not far behind in forming their own professional body. Like the Edinburgh accountants, they found much of their work in insolvency and bankruptcy business, thriving particularly on the commercial failures following the loss of the American colonies in 1776. It was largely the imminence of changes in the bankruptcy law which caused the Glaswegians to meet, some nine months later than their counterparts in Edinburgh, to organise another society. In 1855, the Institute of Accountants and Actuaries in Glasgow received its Royal Warrant. The Society of Accountants in Aberdeen originated at the end of 1866 and was incorporated as a "body politic and corporate" by Royal Charter in the following year.

So began the Institute of Chartered Accountants of Scotland—the body resulting from the merger of the three separate associations, after long negotiations, as recently as 1951—whose commemorative volume, *A History of the Chartered Accountants of Scotland from the Earliest Times to 1954*, from which we have taken our historical facts, has just been issued. Members of the accountancy profession in every country have good cause to congratulate the Institute on its centenary this year. In a very real sense they all owe homage to the doyen of the professional bodies of accountants. Not only has it the pride of history; it has set a standard in accounting practice, accounting education and accounting skill which are emulated by all in the accountancy profession. From some twenty-three different countries, and some fifty-four different accountancy bodies, representatives went to Edinburgh last month to show in what esteem the Scottish Institute is held. The celebrations, lasting from June 16 to June 18, were a brilliant sequence of social gatherings and more serious sessions.

The opening address was delivered by the President of the Institute, Mr. John L. Somerville, C.A., F.R.S.E., upon whom, as we report on another page, Her Majesty the Queen is fittingly bestowing a Knighthood. The members of the Institute, he said, were proud of the description "Chartered Accountant" and the designatory letters "C.A." which followed their names, but the grant of a Charter was no warrant of monopoly. The future of a great profession was not created by letters after a name, but by industry, integrity and service.

Professor Robert Browning, M.A., LL.B., C.A., Professor of Accountancy in the University of Glasgow, in a paper entitled *The Chartered Accountants of Scotland*, traced not only the history of the constituent bodies, but also that of the work of the professional accountant. By the end of the nineteenth century auditing had replaced insolvencies as the principal segment of the professional duties of the accountant. Between 1900 and the outbreak of the first world war, costing and taxation developed as part of his work. In the period between the two wars, while auditing and taxation remained the main activities, accountants became increasingly concerned with the financial problems of public issues, holding companies, amalgamations and reconstructions. During the last twenty years the principal advance had been in the development of industrial accounting:

> accountants are now actively conscious of the importance of the interpretation of accounts and realise that the action which is to follow on interpretation is one of the primary purposes for which they were prepared.

The place of the accountant in helping to determine this action in industry was further developed in another paper read by Mr. Ian T. Morrow, C.A., F.C.W.A. The major strides made by accountants in recent years had, he said, been in the development of techniques to assist management in the day-to-day control of business. Having described these advances, he threw out a significant challenge:

> . . . the profession may in its next stage of development have to decide whether it will follow law and medicine and consciously create specialists in the different fields, or whether it will continue to be satisfied with providing the basic training only.

The social events included a centenary banquet, a ladies' dinner, a luncheon, a Civic Reception and a centenary ball. Among the hundreds of celebrating Scottish Chartered Accountants and their guests were the representatives of the Society of Incorporated Accountants, its President, Mr. Bertram Nelson, its Vice-President, Sir Richard Yeabsley, and its Secretary, Mr. I. A. F. Craig. They carried the greetings of all Incorporated Accountants to the Scottish Institute and their wishes that in 2054 there would be another such century of progress and leadership to be panegyrised.

Electronics and Bank Book-keeping

By A. E. DAVIES

DESPITE THE CONSIDERABLE PROGRESS MADE IN THE LAST fifty years in introducing a great variety of labour-saving devices for office use, the high cost of clerical services and what is often regarded as low output for the effort expended have long been matters of concern to those responsible for the efficiency of business and other organisations.

Soon after the war the development of so-called " giant brains " or computers raised hopes of achieving a considerable advance in clerical productivity by adapting electronic techniques and devices to office work. Despite the keen interest which these prospects aroused in the minds of those responsible for clerical organisation and costs, apart from one or two large experimental and specially built machines no new major range of equipment of general application has so far emerged to take the clerical techniques of the average business, even the average big business, a real stride forward. If the truth is told we have perhaps got rather tired lately of playing noughts and crosses with electronic machines at exhibitions. One is left with the uneasy feeling that the bright prospects of a year or two ago may, after all, be scientists' rather fanciful imaginings. Is there any solid prospect that electronics, or any other science, will give the average office new equipment to boost clerical productivity and cut hard at clerical costs?

In no industry is this question of more importance than in banking, whose whole operations are clerical, and whose costs are the subject of constant irritated criticism by the public at large. Much work has been going on in the banking industry during the last two decades in a search for better and cheaper methods. For instance, the British clearing banks were the first large institutions to make widespread use of adding machines in considerable numbers. They were in the vanguard of the wave of mechanisation of the early 'thirties, and before the war photography of every individual cheque was already part of their standard book-keeping routine.

Since the war this search has been pursued in the field of electronic and similar equipment and it may be helpful to accountants in other industries to know something of the work that has gone on in the banking field, of the conclusions that are being reached, and of the pattern which mechanisation seems likely to take in banking in the future.

The fundamental objectives of the book-keeping and accounting system which the clearing banks in this country operate, its methods and indeed its administrative structure, are very similar to those of most other branch accounting systems, especially those employing slip accounting methods. In other words, a multitude of very similar transactions arising in many widely scattered branches have to be recorded completely—often individually—in local accounts, and have at the same time to affect some form of central or control account, while always there is pressure to keep the cost of operations to a very minimum.

The task thus facing the British clearing banks is formidable. It is variously estimated that there are between 6 and 11 million banking accounts in England and Wales, spread over some 10,000 branches and sub-branches of the 11 clearing banks. Each year some 630 million cheques are stamped by the stamping offices and change hands across the length and breadth of the country. The turnover of cheques varies between about 1½ million on an average day to perhaps 2½ million cheques on a peak day. A head office of one of the major clearing banks may have to handle as many as ¾ million cheques in a day: there is little more than seven hours in which to perform all the necessary clerical work, to agree it, and to photograph, sort and despatch the cheques to the drawee branches. In addition, for every four cheques drawn there is another internal debit slip, or customer's credit slip, to be handled.

Bank offices vary between, at the one extreme, sub-branches with perhaps two men in attendance one day a week, handling perhaps 100 or so cheques weekly and, at the other extreme, offices in main centres with a staff of 200 or more clerks, paying on occasion as many as 40,000 cheques in a day. In a fully mechanised office the capital cost of the necessary office machinery exceeds £10 per account with present methods.

The handling of the vast amount of work which thus arises must be completed daily: there can be no carrying work forward to the next day. The accounts prepared must be correct, immediately available and constantly up-to-date. It will be seen that the accounting system employed by the clearing banks must consequently be simple, cheap, speedy, completely accurate and capable of detailed audit in all its aspects. It must, moreover, be extremely flexible, both to meet the rapid change in load from day to day and to be effective with a minimum of supervision in a great variety of circumstances, in branches both small and large. In the branch it must provide a completely accurate, up-to-the-minute record of every transaction in fairly extensive detail, at the same time as it must ensure that the control accounts in the head office accurately and immediately reflect every change in the total of the liabilities and assets of the bank over the country as a whole.

These conditions apply in general terms more or less to most branch book-keeping and accounting systems in industry and commerce, so that any work done in devising new accounting equipment and methods for banks is likely to be of interest to accountants generally.

Individually the British clearing banks (and indeed other banks both here and abroad) have been very active in looking for new methods which would conform to these standards and at the same time effect real economies. Briefly their investigations have followed one of two general lines of investigation and experiment, either the

approach of the centralised accounting system, the conception of centralised accounting on almost factory lines, or the other conception of the self-entering, self-accounting or robot cheque which would not disturb the general system of localised account keeping.

"The Book-keeping Factory"

First, the centralised accounting approach. The aim of this approach has been twofold. To get all the advantages of the book-keeping factory—maximum and intense mechanisation, with extreme simplification and cheapness—by taking away from centres where space and staff are both hard to get and expensive, out to other centres where there is an adequate supply of staff and expenses are much more reasonable, all that part of the book-keeping not dependent on immediate customer contact.

At the same time, however, it has been necessary to devise means whereby the detail of the prepared accounts may be readily available in a visual form to branch staffs. The use of television for this purpose tried out nearly two years ago by the bankers, *Glyn, Mills & Co.*, was one example. Further trials, actual or suggested, have involved the use of telewriter and teleprinter or telephoto techniques for connecting a number of dependent or satellite branches to an accounting centre.

Now successful though these experiments have been, or may be when they are concluded, they employ much expensive equipment, and though they relieve extreme pressures in the big centres, there must be definite economic limits to their employment—and they still do not get at the real root of the problem. The whole elaborate expensive process of copying, copying, copying, of hand sorting, painfully slow expensive hand sorting, of listing and balancing, goes on, untouched; all the countless routine operations so admirably suited for automatisation by modern devices remain unchanged.

Here, clearly, is the root of the problem—and the root of the cost problem of any slip accounting system. The clerical routines of the clearing banks have been subjected to frequent critical surveys to improve efficiency, with the result that they are streamlined in the extreme. They do not include a single entry or operation, indeed even a flick of the wrist, which is not absolutely essential. For instance, despite the frequency with which cheques for similar amounts are issued and the frequency with which errors arise from such causes as bad figures on cheques, the only record of any cheque made throughout its life, apart from the one photograph and the final ledger entry, is its amount.

The writer has not yet found in commercial life any comparable routine clerical operation which is completed for so low a cost as the handling of a cheque. (In many ways handling a bought order is a comparable transaction and yet the cost of that operation is not the 6d. or 9d. which it costs to handle a cheque, but something often approaching as much even as ten shillings). Despite this, a recent careful functional analysis of the clerical routine involved from the moment the cheque is paid in at one bank, to the point at which, as a "paid" and cancelled cheque, it is handed back to the drawer with his statement at another bank, showed that 62 per cent. of man-hours was employed simply in copying down amounts and other brief data, the amount of each item being recorded some six to eight times throughout the process, each time in a different context. A further 27 per cent. of time went in supervision and only 11 per cent. in other functions.

Self-Sorting and Posting

The expense clearly arises from the frequency with which the same primary function is repeated over and over again. Here then, surely lies the major prospect of substantial saving of effort and cost—in eliminating the repetition of functions, in making one operation effective for all subsequent stages, in short, in making the documents themselves do their own work, rather than in expensive and elaborate schemes of centralisation.

The basic operations, movements or acts in this particular clerical routine are:

1. Physical sorting;
2. Recognition of data and writing it down, that is, plain roll listing (selective listing or ledger and statement posting);
3. Balancing;
4. Memorising or storing balances and data.

Despite the lack of technical terms to describe precisely these basic clerical functions the reader will no doubt feel that most clerical routines connected with book-keeping lend themselves to an analysis that is markedly similar to that just set out. A fairly clear-cut picture thus emerges of what should be the major objectives in the next phase of clerical mechanisation (or "electronification" if one prefers to think in such terms). They should make it possible and economical for documents to sort themselves and to post, automatically and in whatever order or context may be desired, the whole or selected parts of the data which they represent.

Centralisation of book-keeping systems apart, the search in the banking field has been for equipment and methods which, while being suitable for operating the gigantic slip accounting system of the banks, would not disturb the traditional banker-customer relationship, would not drastically modify the existing organisation, and would not change the basic character of its accounting methods. Book-keeping in the banks involves no calculations beyond addition and subtraction, so that the machines are not required to do more abstruse sums. The system by which the machines store their data must be such that the full range of transactions on customers' accounts over a considerable period of time is instantly available in legible form at the accounting branch. Further, the machines must be adaptable to the diverse conditions of different bank branches.

"Do-All" Machines *v.* "Electronification" of Small Machines

For these reasons the search has tended to by-pass the electronic computer field, with its concept of large "do-everything" electronic machines, characterised by their special capacity for complex calculations and the storage of considerable quantities of data (stored in non-legible form). Instead, it has concerned itself more with the electronification of existing machines in small automatic

units, to make them operate automatically under sole control of the original accounting documents themselves.

One promising result of this search is the system of self-posting, self-sorting cheques, recently demonstrated to the British clearing banks by a major British office machine manufacturer. These are designed so that, read or sensed by a standard feed and sensing unit of simple design, they will be able to operate any one of several purely functional machines quite automatically at high speeds, for instance:

(*a*) A high speed automatic cheque or document sorter;

(*b*) A high speed automatic amount tabulator or adding, listing machine for listing and adding cheques, credits, and so on;

(*c*) An automatic ledger and statement posting machine.

This system and such machines clearly have a wide application outside the banking field, for documents of varying dimensions (not, it should be noted, of standard dimensions) will be able, in conjunction with the standard sensing unit, to operate, not only the machines listed, but also electronic calculating and computing units such as are already in manufacture by the company which has devised this "minihole" system, as it has been termed.

Mechanisation in this form of one function to one machine has several advantages—extreme flexibility, low cost, ease of maintenance and reliability. Moreover, while the human element is eliminated, existing accounting checks remain undisturbed. In other words, a book-keeping system can still be subjected to the traditional forms of check and audit in detail, but the system can be modified at any time to meet the changes that are constantly occurring in local conditions and organisation.

Miniholes

Such machines work automatically from data in the form of holes, called "miniholes," so minute as to be almost invisible. Clearly this is only the beginning of a great development in the field of automatic self-handling documents. During the last three years, there has been a flood of patents in the United Kingdom, France, the United States and elsewhere for methods of marking documents—fluorescent and phosphorescent inks, metallic and magnetic inks, even isotopes. A great deal of research has gone into investigating these various means of marking. But it is one thing to take out a patent and quite another to produce a robust, foolproof, practical system. In the event, the punched hole sensed photo-electrically, preferably as small as possible in the form of a minihole, has not been surpassed. It is easily made. It involves no problems of drying inks, of the maintenance of a constant ink density, of controlling the amount of the ink deposit, of working to very fine adjustments both in the printing and sensing processes, of controlling the paper surface or its texture to prevent diffusion of the marking material, or of preventing the bending or diffraction of a light beam. Phosphorescent materials, certainly the more suitable kinds, are poisonous. Isotopes are dangerous to health. So the long search turned back to miniholes having their own reference points and in a self checking code as the most practical marking medium.

Thus the system provides satisfactory solutions to the two major problems, that of picking up and feeding used papers of mixed sizes, and that of devising a satisfactory and practical marking medium.

Scientific calculations, for which electronic computers were first devised, usually start and finish with very little data, but involve an immense amount of intermediate manipulations and regroupings of data. These manipulations and regroupings are of no interest to the user once the necessary routine or steps have been established.

On the other hand, business operations, particularly those associated with routine book-keeping and more particularly those in terms of money, involve the absorption of a great mass of data and its re-marshalling in final form, often under a great many individual headings, but with very little intermediate calculation. The user is concerned with the results of the intermediate and the final regroupings of the data.

Conclusions

The conclusions that emerge seem, then, to be these. Firstly, documents must be made to handle and post themselves. Secondly, electronic machines of the computer type will probably be found more suitable when high capital cost is not a deterrent, when there is a sufficient continuous bulk of complex calculations to make them economical, when there are no serious practical objections to centralisation of the accounting function, and when, as in stores accounting, one is concerned only with final balances, and not at all with the individual transactions or intermediate steps which lead to those balances. Thirdly, that for pure book-keeping, when one is concerned to refer to intermediate transactions and intermediate steps as well as final balances, when the system must be subject to audit, when practical considerations preclude over-centralisation of the accounting function and a rigid standardisation of routines, procedures and documents, when it is necessary to maintain considerable flexibility in organisation, when the calculations involved are relatively straightforward and simple, and when high capital and maintenance costs are to be avoided, then "electronified" machines designed on a functional basis in related groups, so that the composition of a group may be varied to the task and the circumstances, will be more suitable than wholly electronic "do-everything" machines of the giant computer type.

"Electronified" machines means functional machines of the kind now in use—sorters, tabulators, ledger posters, calculators—which, while retaining the ability to be linked together into a working unit in any combination to suit load and conditions (their most valuable feature), nevertheless incorporate electronic elements. These elements, such as sensing heads and multiplying, dividing, adding and subtracting equipment, enable the machines to work at high speeds. And, more particularly, they enable the machines to work automatically from an original document of entry—a cheque, a meter reader's card, a delivery order and so on.

No Par Value

*III—Legal Aspects**

By W. T. BAXTER, Professor of Accounting, London School of Economics, University of London, and L. C. B. GOWER, Professor of Commercial Law, London School of Economics, University of London

IN THE EARLIER PARTS OF THIS ARTICLE WE DISCUSSED THE theory of no-par-value capital and its accounting aspects.* In this final part we propose briefly to review its legal implications.

Extent of Legislative Changes

In this country the traditional method of limiting the personal liability of members of an incorporated company has been by means of shares with a fixed nominal value. Our company legislation presupposes that all companies with a share capital have shares of this type, and accordingly a considerable number of verbal amendments to the Companies Act, 1948, will be required if no-par-value shares are introduced. Nevertheless, as is recognised in the report of the Gedge Committee on Shares of No Par Value, this consideration would not involve any widespread alterations to the Act (which indeed already includes in its scope companies without any share capital at all). Substantial amendment would be needed only to those Sections which relate to the raising, maintenance and reduction of share capital. Moreover, the incidental verbal amendments needed elsewhere might materially add to the clarity of the Act as a whole. For example, Section 213 of the Act defines "contributory" as "every person liable to contribute to the assets of a company in the event of its being wound up," thus leading the reader to suppose that the expression is restricted to holders of partly-paid shares. But he will be mistaken, for it has been held that the term includes all members, both present and past, even though their shares are fully-paid so that they had in fact no liability to contribute anything.[1] If a new amending Act is passed introducing no-par-value shares, it will be necessary for the draftsman to go through the existing Act with a fine tooth-comb to see where consequential alterations are called for; and it is to be hoped that he will take the opportunity of correcting blemishes of this sort.

The major changes would, then, be confined to those Sections in the Act which relate to share capital. The task of the Gedge Committee was to recommend how these Sections, and the rules which the courts have deduced from them, should be adapted to legalise no-par capital without weakening present safeguards.

Value of Existing Rules Regarding Share Capital

Before discussing the recommendations, it is necessary to decide what the present position is and what practical benefits are in fact secured from it. The following rules are thought to be an accurate summary:

(*a*) Uncalled capital cannot be reduced without the consent of the Court. Where such capital exists it constitutes a source of potential funds that is of great value to creditors.

(*b*) Where shares have been issued for cash, those dealing with the company can rely upon its having at some time received assets to the full nominal value of its issued share capital and premiums (except where the Court has consented to an issue at a discount).

(*c*) Creditors are protected by the rule that the company cannot (without the consent of the Court) deplete its assets by repaying capital to the shareholders. The accounting corollary is that the company must maintain the share capital and share premium figures shown as "liabilities" in its balance sheet (unless the Court consents to a reduction) and this even though the corresponding assets have been irretrievably lost.

(*d*) The existing shares cannot (without the consent of the Court) be "watered" by an issue of the same class below par.

The real value of these rules must not be exaggerated; indeed, an examination of each in turn will show how restricted their ambit is.

(*a*) *Uncalled Capital*

Rule (*a*) is rarely applicable, for today uncalled capital seldom exists for longer than a few months after allotment, except in the case of banks and similar institutions. For the most part, therefore, the rule has ceased to give any protection.

(*b*) *Issues at a Discount*

Nor does protection (*b*), the prohibition of issues at a discount, amount to much. Its only value seems to be to prevent the figure of nominal capital being used to give a false impression of size or solvency. Such a deception, however, would hardly be possible if the whole balance sheet were studied. Moreover, as we have said above, this safeguard can be relied on only when the issue is for cash. When it is not, there are no arrangements for checking the valuation of the non-cash consideration (as there are in

* Part I of this article, on the theory of no-par-value capital, appeared in our May issue, on pages 169-173, and Part II, on the accounting aspects of no par value, in our June issue, on pages 211-213.

[1] *Re Anglesea Collery Co.* [1866], L.R. 1 Ch. App. 555; *Re Aidall* [1933], Ch. 323, C.A.; *Re Consolidated Goldfields of New Zealand* [1953], Ch. 689.

most Continental countries) and hence (unless there is evidence of fraud, or unless inadequacy of consideration appears on the face of the transaction) the company's valuation must be accepted as conclusive.[2] Accordingly, shares may in effect be issued at a discount. Moreover, it is easy to disguise such an issue as an issue for cash, either by an exchange of cheques or by a book-keeping set-off without that subterfuge.[3] And even a genuine cash issue may be made at a discount of 10 per cent. plus brokerage.[4] Furthermore there is at present no requirement of any minimum capital—nominal, issued or paid-up—or minimum par value per share.[5] If a company can have a total capital of ½d., made up of two ¼d. shares, it is clear that par values mean very little—either here or elsewhere.

(c) Maintenance of Capital

As regards rule (*c*), which expresses the so-called principle of the maintenance of capital, the only formal exception is in the case of redeemable Preference shares (and even there the purity of the principle is maintained by provisions regarding the " capital redemption reserve fund "). But the weakness of this rule as a protection to the creditors is that it prevents only an open return of capital as such. It insists on the maintenance in the accounts of share capital, share premium, and capital redemption reserve fund as " liabilities," but in the nature of things it can do little to ensure that the corresponding assets (which alone are of any use to creditors) are also maintained. It cannot secure that assets are not lost in trading; and, once assets are lost, it does not prevent dividends being paid to shareholders out of the current year's profits notwithstanding that past losses have not been recouped. Moreover, the existence of rule (*c*) encourages companies to make a formal reduction of capital and so to circumvent the rule. As we stressed in the first part of this article, one class of shareholders (usually Preference) is often penalised unjustly by a reduction; and the consent of the Court has not always proved a very effective safeguard in such cases. Normally the Courts refuse confirmation only if there is some breach of the procedural rules; in other circumstances they take refuge in the facile, but fatal, rule that the shareholders are better judges of what is in their interests than Judges can be. Indeed, a recent case[6] seems to be unique in this century in that there the Court actually refused (although as an alternative ground for its decision) to confirm a reduction on the ground that it was unfair.

Nevertheless, rule (*c*) does prevent an open repayment of capital, and without it there might be a temptation, for tax reasons, to repay capital rather than to pay dividends out of income. Further, it does exercise a restraint (as a matter of practice rather than strict law) on the payment of dividends until past losses have been recouped.

(d) Share-watering

As regards rule (*d*), par value as a protection against share-watering is obviously only of slight value. If 1s. shares are now worth 5s., they are diluted by any issue at a price of less than 5s. Par value is thus a protection only in that it puts a limit to the dilution. Where new shares are not offered to all existing shareholders, the only real protection is the good faith of the directors, which normally requires that they should obtain the best possible price.

Accordingly, it seems that the value of all our existing rules is slight. But such benefits, however slight, should certainly not be abandoned. What safeguards, then, must be introduced to ensure that they are preserved under a no-par system?

Safeguards Needed to Retain These Benefits

It must first be stressed that it is only rules (*a*), (*d*) and, in part, (*b*) which really still depend on the *nominal* value of capital. After the reforms relating to share premiums introduced by the latest Companies Act, the most valuable of these rules (rule (*c*)) is today based on total sums (including share premiums) received on the issue of shares, and no longer on nominal capital. Accordingly the basic principle underlying the recommendations of the Gedge Committee is that the total consideration received on an issue of shares shall be treated as capital. This rule—simple, but drastic in comparison with the rules adopted by many legislatures—is quite enough to preserve fully the principle of the maintenance of capital.

Maintenance of Capital

As we have just stressed, this principle today is aimed at ensuring, so far as practicable, the maintenance of total capital receipts (including premiums) rather than the maintenance of nominal capital as such. Hence the no-par system makes no difference, provided that it is laid down that the whole consideration received on the issue of the shares must be allocated to capital. This, in effect, is what the Gedge Committee have recommended. They rightly reject the practice adopted in some American States, of allowing part of the proceeds of issue to be credited to " surplus," and recommend that the whole shall be credited to " stated capital," which will take the place of both the capital account and the share premium account of a company with par-value shares. They also recommend that, if a company converts its Ordinary shares[7] having a nominal value into shares of no par value, it should carry to stated capital account, under appropriate headings, a sum equal to its existing paid-up capital (whether Preference or Ordinary) and all amounts standing to the credit of share premium account, including premiums on the issue of Preference shares.[8] Again, if a company with no-par Ordinary shares issues Preference shares, the whole proceeds of issue or value of the consideration should be carried to stated capital.

[2] *Re Wragg* [1897], 1 Ch. 796, C.A.; *Re White Star Line* [1938], Ch. 458, C.A.

[3] *Spargo's Case* [1873], 8 Ch. App. 407.

[4] Companies Act, 1948, Section 54. In more than one recent case this Section has been relied on for the making of an issue of £1 shares less a commission of 1s. to all subscribers.

[5] Hence the rule fails to ensure that a company does not get under way while inadequately capitalised. In so far as this is secured at all, it is by the requirement in Section 47 of the Act that the minimum subscription shall be raised on a public issue of shares.

[6] *Re Old Silkstone Collieries* [1954], 1 Ch. 169, C.A.

[7] As previously pointed out, the Committee do not recommend that no-par Preference shares should be permitted.

[8] Our comment on this omnibus type of account is given in Part II of this article.

The Committee recommend that the above rule should apply whether the shares are issued for cash or for a consideration other than cash.[9] It has sometimes been urged as one of the great advantages of no-par-value shares that they would avoid the necessity of placing a monetary value, which may be arbitrary and misleading, on shares issued for a non-monetary consideration. But, unless some figure for this "capital" is inserted in the company's records, it is quite impossible to preserve any of the safeguards referred to above. In the absence of such a requirement, moreover, promoters might more easily be able to obtain excessive rewards and to conceal their extent. It is clear, we think, that abuses resulting from issues otherwise than for cash can never be wholly eradicated without adopting the Continental practice of requiring an independent valuation of the consideration. Failing this, it appears to us that the best procedure is to require the directors to place "a true and fair value" on the consideration, and for this sum to be credited to capital account. The recommendations of the Gedge Committee are phrased rather more vaguely; they require the directors to assess "the value of the consideration," and do not actually use the well-worn formula "true and fair value." Reading the report as a whole, however, it seems clear that the intention is that the directors should not be permitted to value the consideration at an arbitrary figure either above or below its market price. This, it is submitted, ought to be made quite clear in any legislation implementing the proposals. It may be pointed out that in practice there will be at least some objective check, in that the valuation of all assets which do not pass by manual delivery will normally[10] have to be agreed with the Revenue for purposes of stamp duty on the sale agreement.

Exceptions—(i) Preliminary Expenses

To this general principle that all share considerations are capital, the Committee are prepared to recognise two exceptions, both of which are more apparent than real. In the first place, they suggest that preliminary expenses, commissions and the expenses of issue should be charged to stated capital without this being regarded as a reduction of capital. In other words, stated capital would represent the net proceeds of the issue.[11] This admittedly differs from the present position where shares are issued at par. If, however, they are issued at a premium, these expenses may already be written off against share premium account.[12] For all practical purposes, therefore, this represents no change.

Exceptions—(ii) Reconstructions

Secondly, the Committee are prepared to relax the present rule whereby on a reconstruction or amalgamation the revenue reserves will become "frozen" as capital. They recommend that, where the shareholders remain substantially the same,[13] revenue reserves should be allowed to remain as such, and that this should apply both to companies with shares of a nominal value and to those with no-par-value shares.[14] The rule requiring revenue reserves to be frozen on a reconstruction can cause unnecessary inconvenience; it is really an example of the harm that can be done if a principle is extended to its logical conclusion without regard to the object which it was designed to serve. When investors put up capital to buy a going concern from someone else, they would deceive themselves if they treated any pre-acquisition profits as fruits of their own capital. But a reconstruction under which the investors remain substantially the same does not involve the purchase of a business from someone else (except in the most legalistic sense). Hence there seems no good practical reason why shareholders should not here treat pre-reconstruction profits as their own profits. The true test is not whether the profits are earned before or after the date of some formal legal act, but whether they have been earned before or after the investment of capital by the present proprietors. Certainly the purpose of the "maintenance of capital" principle will not be frustrated if this excrescence is lopped off; its removal is unlikely to be deplored by any except a few legal and accounting purists.

Insistence on placing the whole proceeds of the issue to stated capital will thus preserve the most important of the present rules relating to share capital. What of the others?

Uncalled capital

Although with shares of a nominal value the uncalled amount is based on their par values, the same margin can easily be achieved with no-par shares. Hence, as the Committee say, no-par shares need not prevent the retention of uncalled capital in the rare cases where it is wanted. All that is necessary is that the terms of issue, the share certificates and the like, should all clearly state that the holders are liable to pay further sums of a stated amount when called upon.

Issue at a Discount

The Committee conclude that the present prohibition of issues at a discount, except with leave of the Court under Section 57 of the Act, serves no good purpose. Indeed they think that the prohibition may have done more harm than good by forcing companies to overload their capital structures with prior charges when, but for the prohibition, they might have been able to raise finance by the issue at a discount of further Ordinary shares. In principle they would be prepared to favour a relaxation of this rule even in the case of shares of a nominal value, but they doubt whether

[9] Cf. *Head & Co.* v. *Ropner Holdings Ltd.* [1952], Ch. 124.

[10] Unless exemption can be obtained under the Finance Act, 1927, Section 55: *infra*, footnote 13.

[11] The Committee suggest that a note of the charges for expenses (etc.) should be included in the balance sheets for the next two years.

[12] Companies Act, 1948, Section 56(2).

[13] The Committee suggest that a definition of reconstructions of the appropriate type should follow the lines of Section 55 of the Finance Act, 1927, as amended, which provides concessions as regards stamp duties.

[14] The Committee admit that this recommendation goes beyond their "strict terms of reference." This seems to be an understatement; it is difficult to see how the recommendation has anything at all to do with no-par-value shares as such, and there can be little doubt that it is really made because the members feel that there is now an opportunity, which may not recur for some time, of instigating a much-needed reform. This is most commendable, and one wishes that they had gone even further; there are other reforms which, as some would think, are more urgent than this, or indeed, than no-par capital itself.

companies would often make use of any such facility in view of the psychological unattractiveness of a share which has its devalued state branded on its face. With no-par-value shares the question of issues at a discount does not arise, and this they rightly regard as a considerable advantage.

This, however, does not mean that rule (*b*) above is altogether discarded. It will be observed that, in our statement of its practical effect, all we claim for this rule is that on an issue for cash it ensures that the company does in fact receive the full stated amount of the consideration. Under the Committee's recommendations this will be ensured equally effectively.

Share-watering

Similarly, the Committee do not consider that any legislative safeguard is needed to prevent share-watering by a further issue at an undervaluation. In our respectful submission, they are wise to reject the suggestion that rights of pre-emption should be given to the existing shareholders. In the United States of America, where, in most States, shareholders have been held to have such rights at common law, much difficulty has been caused, and the rule has now been generally modified or abrogated by Statute. We certainly would not favour the introduction here of an inflexible rule of law to this effect. But this, of course, does not mean that a rights issue to the existing shareholders will not often be the appropriate method of raising new capital—the growing popularity of such issues shows that this is already recognised in practice.

The Committee consider that matters of this sort should be left to the supervision of the stock exchanges; to the powers of investigation conferred on the Board of Trade; to the powers of the Court to wind-up if it is just and equitable, or to adopt the new alternative remedy under Section 210 in the event of oppression; and to the general law as to misfeasance. They may well be right. On the other hand, it must be recognised that the first of these powers can be used only in relation to public companies with quoted shares, and the second is unlikely to be exercised in relation to any other companies. Private companies also, under the Committee's recommendations, will be at liberty to issue no-par-value shares, and we have an uneasy feeling that the remaining legal remedies are both too uncertain and too expensive to be really effective. It might have made it easier to establish a case of misfeasance or oppression if, as we suggested to the Committee, it were laid down as a legislative rule that when more capital is issued the duty of the directors is to get the best price reasonably obtainable. This, however, might cause complication unless stock options were also to be barred; personally, having regard to the use and abuse of such options in the United States, we should face the latter prospect with equanimity.

Additional Legislative Changes

Conversion from Par to No Par

The only further safeguard recommended by the Committee is that if a company having shares of more than one class decides to convert its Ordinary capital from par value to no par value, the conversion should be subject to approval by extraordinary resolution of each class. The report states that this is to remove any ground for apprehension that the rights of holders of special classes could be prejudiced by the conversion. This, we suspect, may be partly due to a misunderstanding of the fears which we ourselves expressed to the Committee. Our misgivings, however, were not that the conversion itself might prejudice anyone (we do not see how it could) but that the increased facility for splitting shares after conversion might do so. Our point, if it is a point, is hardly met by requiring class consents to the conversion itself; we favoured requiring the separate consent of each class to any share-splitting, whereas the Committee recommend that splitting should be possible by a special resolution, without class consents unless required by the Articles.

Perhaps an example will show what we had in mind. Suppose a company has 5,000 Preference shares and 10,000 Ordinary shares, all of £1 each. The Preference shares confer the right to a fixed 7 per cent. preferential dividend. All shares have one vote, but the Preference shareholders can vote only on resolutions for winding-up, for reduction of capital, or affecting their special rights. Nothing is said about rights to return of capital on a winding-up, so that all shares rank equally in this respect. There is the usual " modification of rights " clause in the Articles.

If, now, the company wishes to convert its Ordinary shares into no-par-value shares, this is harmless enough on the face of it, and the Preference shareholders may well approve. But suppose, once this has occurred, that the company decides to split each of its Ordinary shares into ten. The effect on the Preference rights is startling to the extreme, for they may be degraded to one-tenth of their former value. Of course, if this is, in law, a " variation or modification " of the rights of the Preference shareholders, they are protected, for their separate consent will be needed under the modification of rights clause in the Articles. But, strange as it may seem, it is by no means clear that the law would regard this scheme as varying, modifying, or affecting their rights;[15] and if it does not their separate consent will not be needed, nor will they have any vote at all on the special resolution.

Admittedly the strictly legal position would not be very different if the Ordinary shares remained with a nominal value.[16] But there would be a slight difference, even in law, for so long as the shares had a nominal value the capital would be returned on the basis of this nominal value. Hence the Ordinary shareholders could not increase their slice of the cake on a winding-up merely by splitting; a bonus issue would be needed.[17] With no-par shares, it seems that

[15] It is certain that the effect on voting power would not be so regarded: *Greenhalgh* v. *Arderne Cinemas* [1946], 1 All E.R. 512, C.A.; *White* v. *Bristol Aeroplane Co.* [1953], Ch. 65, C.A.; *Re John Smith's Tadcaster Brewery ibid* 308, C.A.; nor apparently would the effect on their rights of participation, Cf. *Re MacKenzie & Co.* [1916], 2 Ch. 450 which was cited with apparent approval by the Court of Appeal in the above cases.

[16] But, as we have pointed out, the Committee did not hesitate on another point to recommend a reform of the law relating to companies with par-value shares.

[17] But they could increase their votes without this: *Greenhalgh* v. *Arderne Cinemas* (*supra*), In any event, the Preference shareholders seem to have no legal right to object to the bonus issue; the reserves could have been distributed as Ordinary dividend, and can therefore be used to pay up a bonus issue to the Ordinary shareholders.

the Ordinary shareholders can increase their slice merely by a sub-division of the shares. Even if this is not so, and an increase of Ordinary capital is still required, it does not alter the fact that both " splits " and bonus issues will be facilitated by no-par shares. It is precisely this greater freedom that the majority of the Committee regard as the great advantage of no-par shares and the minority as their great danger.

If, finally, it be objected that no company would dare to treat its Preference shareholders so scurvily in the face of Press comment, and that the stock exchanges would not countenance it, we can only say that even if this is true of public companies with quoted shares,[18] these desirable restraints will not be available so far as other companies are concerned.

In the light of these considerations it is suggested that Preference shareholders should—failing safeguards—be very reluctant to consent to a conversion of the Ordinary share capital. In our view they will rarely be well advised to agree without making it a condition either that the modification of rights clause be so amended as to prevent any increase in the number of Ordinary shares, whether by way of a split or on a bonus issue. without their consent, or that they be given some fixed percentage of votes, and some fixed amount or percentage of capital on a winding-up. And, similarly, investors should scrutinise very carefully the terms of any new issues of Preference shares by a company having no-par Ordinary shares.

It is also possible to imagine circumstances in which share-splitting of Preferred Ordinary no-par shares might be used to the grievous detriment of the non-Preferred shareholders. If the Preferred Ordinary shares were entitled to a preferential dividend of £1 per share, and to a preferential right to a payment of £10 per share on a winding-up, the Preferred Ordinary shareholders, if they had voting control, might multiply the value of their holdings by splitting each of their shares into two or more. Here again, it is not clear that the law provides a remedy.

In the light of these examples we submit that the Committee's proposals do not go far enough and that it is essential to provide, as we recommended, that the separate consent of all classes should be necessary before any class of no-par shares is sub-divided or increased. This, as we said, might be relaxed if the terms of issue expressly provided to the contrary, for then the investors would have had their attention drawn to this point and have only themselves to blame if they took the risk and suffered as a result. But under the Committee's proposals they might be led blindfold to their own destruction.

Registration Fees and Capital Duty

It will be appreciated that, under the no-par system, some change will be necessary in the present arrangements for levying fees and capital duty, which are at present based on the nominal capital. As the Committee point out, registration fees are of minor importance. As regards capital duty, they recommend that it should be imposed on the total issue price or consideration, that is, on the total amount of the stated capital. And, here again, they recommend that this should apply to all companies—to those with par-value shares as well as to those with no-par shares. As we pointed out in our evidence, this seems infinitely fairer than the present system; fairer to the Inland Revenue, which at present is virtually cheated out of its dues whenever a company issues its shares at a premium, and fairer to the company, which will not have to pay the duty until it actually raises its capital.

This recommendation would remove the main restraint on the over-stating of the original authorised capital by companies with par-value shares. Hence a company might register with an authorised capital of £20 million and refer to this as its capital, notwithstanding that only a few pounds of it was actually issued. The Committee suggest that this might be prevented by making it an offence for a company with a nominal capital to refer to its authorised capital without stating the issued and paid-up capital with equal prominence. We should feel greater confidence in the adequacy of this safeguard if we did not know that many people who have dealings with companies are quite oblivious of the distinction between authorised, issued, and paid-up capital. While it is clearly desirable that the two types of company should be treated alike (tax discrimination against no-par shares has had unfortunate results in the United States) there may be a real danger of fraud unless some effective sanction is found to prevent the inflation of authorised capital once the restraining influence of the capital duty is removed.

Capitalisation of Reserves on Share Splitting

Under a no-par system it seems likely that share splitting will frequently be used instead of a bonus issue. Under the present system, a splitting of shares has no effect on the apparent rate of dividend, since the nominal value of the shares is reduced to the same extent as their number is increased. A company wishing to reduce the apparent rate of dividend is therefore forced to make a bonus issue. With no-par shares, this more cumbersome and expensive method is not needed. Hence, an incentive to the capitalisation of profits will be removed; and, further, the Inland Revenue will not obtain the capital duty payable on an increase of capital to provide for a bonus issue. In our evidence to the Committee, we accordingly suggested that, if the Committee agreed it was in the public interest for companies permanently to plough back profits, they might like to recommend that an increase of stated capital should be obligatory whenever there was a splitting of shares. However, the Committee considered this should be left entirely to the discretion of the directors.

Minimum Capital

As we expected, the Committee ignore our further suggestion that companies should be required to have a minimum paid-up capital or, preferably, a compulsory deposit with the Board of Trade. A similar proposal was rejected by the Cohen Committee on the ground that it would discriminate unfairly against persons of small means. This seems to us to be unrealistic. Limited liability is a dangerous thing, and when it is abused it is " persons of

[18] But note the type of reduction scheme in *Scottish Insurance Corporn.* v. *Wilsons & Clyde Coal Co.* [1949], A.C. 462, H.L. and *Prudential Assurance* v. *Chatterley-Whitfield Collieries*, (*ibid*, 512), described by *Imperial Chemical Industries* in a recent circular (May 20, 1954) as one which " stockholders of both classes would probably regard as unfair and inequitable."

small means " who suffer most. To require those who want limited liability to provide some safeguard to third parties seems to us to be no more a discrimination against the poor than the requirement of third-party insurance for those who want motor-cars. Clearly, a deposit with the Board would be a far more effective safeguard than a minimum paid-up capital, but even the latter would be some restraint on the formation of mushroom companies and on consequent abuses, and would be a small price to pay for the advantages of incorporation. The absence of any minimum share capital leads directly to the defeat of creditors, for it enables the proprietors to finance the business by debentures instead, and thus to rank ahead of the business creditors. Clearly a company with ½d. capital is not in fact working on ½d., and its proprietors must in fact provide working capital in the form of loans; thanks to the existing law, the proprietors may run less risk, as regards this balance of working capital, than do the unfortunate members of the public who have dealings with the company.

We appreciate that our proposal, if applied to companies generally, might be regarded as beyond the Committee's terms of reference; but this, as we have pointed out, has not deterred the Committee in relation to another reform. It is significant that most Continental systems, even though they do not permit shares of no par value, insist on a minimum capital as an essential condition of incorporation with limited liability. Moreover, the case for a minimum capital, already strong, becomes overwhelming as regards companies with shares of no par value. Such companies could, in the absence of this safeguard, be formed without the proprietors putting even a ½d. share capital into it; they could just subscribe for two (or seven) shares for no consideration, and put up working capital in the form of loans. Any rules for the maintenance of capital would thus be defeated, for there would be no share capital to maintain.

We therefore recommended that a company should not be allowed to issue no-par-value shares, or to convert into such shares, unless it had a total capital paid-up in cash of (say) at least £1,000, with the proviso that this limit might be reduced to not less than £100 if the company deposited with (or secured to) the Board of Trade half the difference between the actual paid-up capital and £1,000. Any sum deposited or secured would then be treated as " reserve capital " and shown in the balance sheet as:

Reserve Capital (deposited with the Board of Trade) £—

and

Reserve Capital (secured to the Board of Trade) £—[19]

As indicated, the Committee did not take kindly to this suggestion, and we are not altogether surprised. But we remain unrepentently attached to it, and are continuing to advocate it.

Conclusion

This concludes our survey of the theoretical, accounting, and legal aspects of no-par-value capital. We think that the matter is of some theoretical interest, and we hope that it may become of practical value also.

Should the no-par system in fact be introduced, it will be interesting to see what effects it will have on company practice. One likely result, for reasons already pointed out, is that capitalisation of reserves by bonus issues will become less common, its place being taken by the cheaper expedient of share-splitting. This may or may not be a good thing.

Another likely consequence is that on any future trade recession we shall not see so many applications for formal reductions of capital. If the only real purposes of a formal reduction after a loss of capital are openly to acknowledge the loss and to enable the company to resume payment of dividends at a reasonable rate, these results can be simply achieved by a consolidation of shares which are unhampered by a par value. The latter procedure appears to us to be wholly desirable, since it may avoid the undoubted hardship that one class of shareholders often suffers on a formal scheme of reduction.[20]

The Committee are to be commended for their refusal to countenance any relaxation of the principle of capital maintenance. Perhaps, however, they may not be sufficiently alive to the possibilities of abuse in other directions—particularly in cases where the restraining influence of the stock exchanges does not make itself felt. We ourselves think that the Committee's recommended safeguards do not go far enough, especially as regards restraining the possibility of prejudice to class rights by share-splitting. In our view it would be better to err on the side of strictness than on that of laxness, even if this diminishes the attractions that no-par shares might otherwise offer. If the rules are not made stringent from the very start, no-par shares may unnecessarily acquire an ill-repute and lose their attractions altogether. This would be a pity, for potentially they should provide the ignorant investor with greater protection than he enjoys at present.

Subject to this doubt, we fully share the Committee's view that the belated introduction of this form of capital would be in the interests of business, investors, and the public generally.

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[19] The money value of the " secured " capital would be ruled off, that is, would not be extended into the effective money columns of the balance sheet.

[20] This does not mean that asset values could not, or should not, be written down after losses have occurred. A corresponding sum might, for instance, be shown as a deduction from the " capital and reserves " section on the other side of the balance sheet. For example, suppose the unrevised balance sheet runs:

Capital (Ordinary N.P.V. shares)	£	*Assets* (*net*)	£
1,000 shares	1,000	Book values	1,200
Reserves	200		
	£1,200		£1,200

The assets are now worth only £100; and the shares are for convenience to be reduced to 100 in number. After consolidation, etc., the balance sheet might be shown thus:

Capital (Ordinary N.P.V. shares)	£	*Assets* (*net*)	£
100 shares	1,000	As revalued	100
Reserves	200		
	1,200		
Less Loss in asset values ...	1,100		
	£100		£100

Accountancy and Public Relations—the American Example

By NICHOLAS A. H. STACEY,
Visiting Scholar, Graduate School of Business, Columbia University, New York, 1951-52

TO SAY THAT BY NATURE THE BRITISH ARE reserved and the Americans are flamboyant is a verity which transcends most other national definitions. Without entering into arid philosophical disputations about the respective merits of each group trait, we may affirm that in one field at least—that of public relations—the flamboyance of showmanship gets the better of the reserved nature which shuns publicity. That is the reason why the public relations activities of all professional groups in the United States are so well developed. This development also applies to the accountancy profession, whose members, more than those who follow some other professions, are as a rule particularly reserved. I am not at all certain that in Britain we want to emulate the ultra-articulateness of American accountants and their professional associations. But I think that we can profit by their experience and method in " how to put over things " to the public.

The fact remains that in the U.S.A. the average man knows something about the work of accountants, the rigours of their training and their professional activities. He knows that there are two types of accountants, the qualified and the unqualified, and that if one wants to go to the bank to borrow or to a factoring agency to discount bills it is preferable to have the accounts certified by a Certified Public Accountant. In my experience of the lay man's reaction in Britain, he knows very little about accountants and is often confused by the several distinct designations and designatory letters.

Both in Britain and in America, members of the profession are active in many fields, in addition to and apart from their daily professional work. They serve on committees, official and semi-official; tender advice on special inquiries; exert themselves in social work; serve on the Bench; act for their clubs and other institutions in an honorary capacity. All this is extra effort which, in the ultimate, serves the collective interests of the profession. Since the social, political and economic enhancement of any accountant helps to elevate the standing of the profession, the Americans believe that information about such activities should also be disseminated as widely as possible.

Efforts to obtain publicity for members of the profession is one side, the lighter side, of the coin. The other side is the professional work of accountants and a popularisation of the ideals they wish to attain. For instance, when income tax forms are due to be filled in, American accounting societies, locally and nationally, try to assist the man-in-the street by proffering gratuitous advice about how to compile the returns. Good Samaritan gestures of this kind do not detract from the total volume of professional services of accountants; on the contrary, since they are a practical demonstration of helpfulness, they are bound to engender further business.

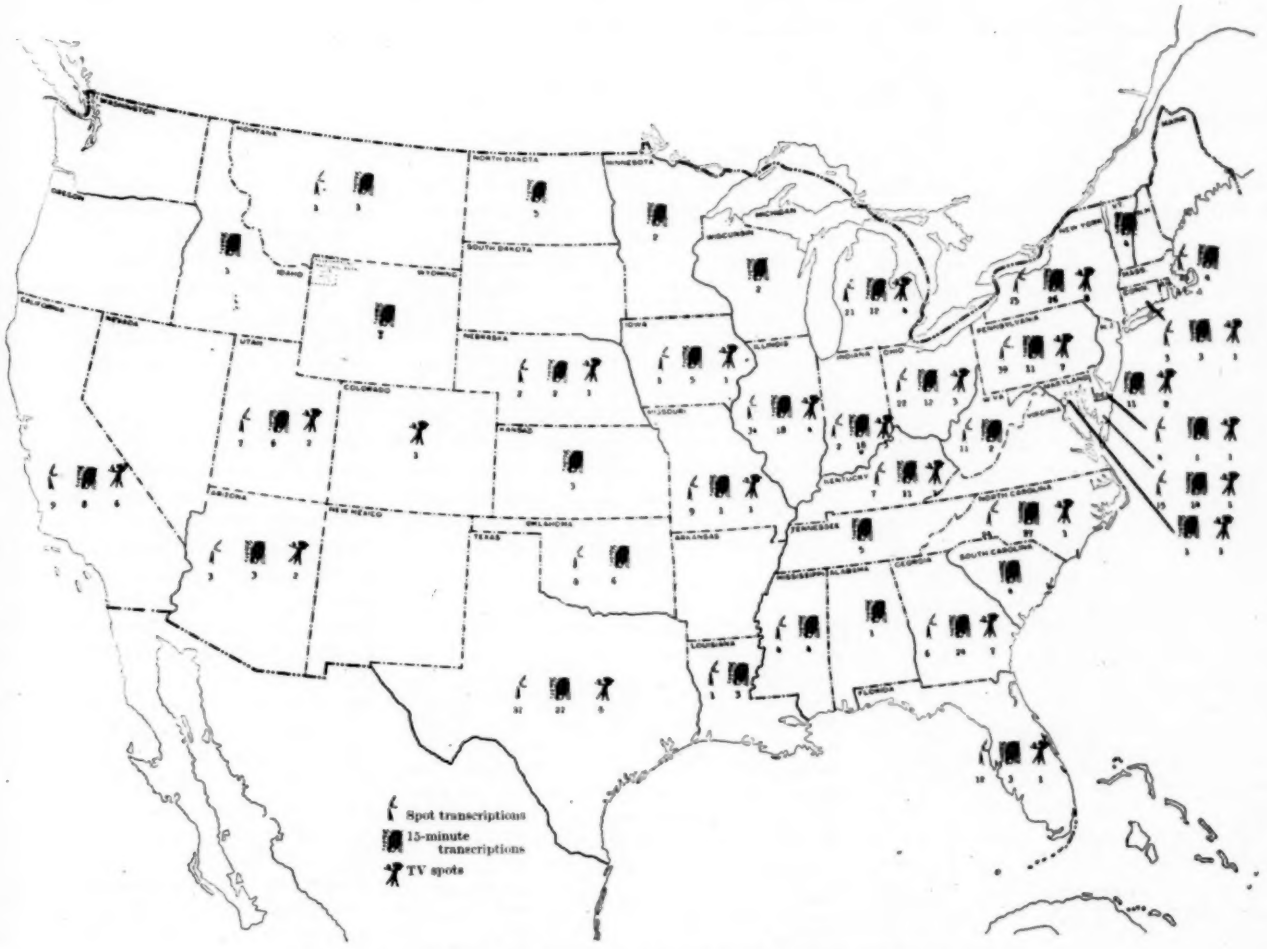
Just how vast the public relations activities of C.P.A.s are in the U.S.A. may be gleaned from the annual report of the American Institute of Accountants. It should first be explained that the Institute is a voluntary body of qualified accountants (Certified Public Accountants) and it acts as the chief liaison between the profession and the outside world. One of its functions is to draw up, and adjust when necessary, accounting conventions; it does this in co-operation with the Stock Exchange and the Securities and Exchange Commission. It might just be mentioned that since there is no body of law in the U.S.A. which compares with our Companies Acts, the pronunciamentos of the A.I.A. gain added importance.

First of all let us look at the list of major publications issued by the A.I.A. during 1952-53. Premier place must, of course, be accorded to *The Journal of Accountancy*, which is a " national " magazine for accountants, read by the qualified and unqualified alike. Subscriptions (less production costs) brought in $182,000, plus $159,000 from advertising; sundry costs and promotional projects and advertising connected with the journal cost $167,000, which still leaves a goodly margin of profit for the publishers. Some 27 cents of each dollar earned by the A.I.A. comes from the sale and advertising of *The Journal of Accountancy*. Its circulation is over 65,000 copies monthly. Other publications during 1952-53 included *Accounting Trends and Techniques* ($10); *Long Form Report Practice* ($3); *Better Accounting Through Professional Development* (free); *Accountants' Index* ($10); *Profitable Tax Planning* ($1); *The CPA Handbook* ($27); *Restatement and Revision of Accounting Research Bulletins* ($2), and *Recommendations for Amendment of Federal Tax Laws* (free). In addition, booklets have been issued on examinations and on the career of accountancy.

The Institute is a clearing house for information on the practical day-to-day problems of operating an accounting firm. It prepared a packaged " case study " on the activities of C.P.A.s in several States to arrest, through better audit controls, a nation-wide increase in defalcations. At its headquarters in Madison Avenue, New York, a well-stocked library is maintained: more than 10,000 visitors used the library last year, 9,000 pieces of printed material were furnished to members on request and 16,000 enquiries were answered. The Technical Information Service responded to 873 questions put to them from almost every State in the Union and a dozen foreign countries. The annual meeting of the Institute at Houston, Texas, attracted an attendance of 1,800.

As the report unfolds, it becomes increasingly impressive. More than 3,000 releases were sent last year to the Press (newspapers and periodicals). Here is a good public relations angle of interest to British accountants, namely, what were the matters of interest distributed through this medium? They reported such events as the admission of new members, elections, appointments, awards, speeches, and policy statements. But Americans keep abreast of the times. The latest medium, television—in addition to broadcasting—was enlisted to put across the views of accountants. Officials of the United States Internal Revenue praised on television the A.I.A. for its helpfulness in assisting the harassed taxpayer in his ordeal of filling in the returns. One of the most interesting programmes was arranged with the co-operation of Government authorities, when the Federal Taxation Committee appeared on a network discussion show. A map showing radio and television programmes sponsored by American accountants is reproduced on the next page.

Another good scheme of public relations



From the Annual Report of the American Institute of Accountants, 1952-53.

is the provision of security for accountants. The "Death of a Salesman" days of American wage and salary earners are over, and employees as well as principals are interested in obtaining retirement benefits just as much as their British counterparts. Insurances in force under the Institute's programme total about $64 million, protecting 1,700 firms and 11,000 individuals. The possibility of making group insurance available is under consideration. Through its membership services the Institute supplies material to aid State societies all over the Union on publicity, the operation of speakers' bureaux, meetings and membership promotion; it organises special sessions for State society presidents and State society executives.

The accountancy profession in the U.S.A. is certainly not backward in showing its worth. This is how it should be, if the old adage still holds true that others will think of you in the way you think of yourself. No wonder the American scene is permeated with the activities of accountants and much is known about their activities by every section of the population. Like all activity, public relations can be overdone. I do not presume to chide the accountants in the U.S.A. on this score since I believe they are doing no more than is necessary, according to local conditions, to explain the work and objectives of accountancy. The danger would arise only if different sections of accountants competed with one another. With Gilbert and Sullivan we must concur that "if everybody is somebody, nobody is anybody." Luckily, the American accountant needs no safeguards against this danger since he is represented—the qualified one at least—by a single agency, the American Institute of Accountants.

Without wishing to emulate American accountancy practice of high-power public relations in Press, radio and television, it should not be left unsaid that the Public Relations Officer, with one exception, is practically unknown in British accountancy circles. Yet if an issue, whatever it may be, is worth fighting for, it is surely worth while to state the case with skill and professional competence so that the sympathies and understanding of public opinion can be enlisted.

The Winding-up of Foreign Companies

By W. H. D. WINDER, M.A., LL.M.

WHERE A COMPANY INCORPORATED OUTSIDE Great Britain which has been carrying on business in the country ceases to do so, it may be wound up as an unregistered company. This may be done notwithstanding that the company has been dissolved or otherwise ceased to exist as a company under or by virtue of the laws of the country under which it was incorporated. The relevant provisions are in Section 400 of the Companies Act, 1948, an Act which does not expressly refer to any possible claim by the Crown to the property of a dissolved company as *bona vacantia* in such circumstances. The Crown did make a claim of this nature in the case of *In re Azoff-Don Commercial Bank* (1954, 2 W.L.R. 654) but after an elaborate argument the Court rejected the claim.

The facts of the case can be briefly summarised. An incorporated Russian bank had been dissolved in Russia by 1922. It had never had an office or place of business in England and was not registered under the Companies Act, but had carried on a number of mercantile transactions in England, was a customer of and a shareholder in an English bank, and had substantial assets in England. Five Norwegian banks presented a petition for the winding-up of the company. The Crown opposed the petition and claimed that the British assets of the company were *bona vacantia* and that there was no jurisdiction to make a winding-up order without the Crown's consent. It was also claimed that the company had not carried on business in England in such a way as to found jurisdiction to make such an order and that, if there was jurisdiction, an order should not be made at the suit of foreign creditors, but that it should be left to the Crown to get in the assets so as to make *ex gratia* payments to English creditors in respect of irrecoverable rouble debts. Mr. Justice Wynn-Parry decided, nonetheless, to make the usual order for compulsory winding-up.

Limits of *bona vacantia* Claims

To what extent is the Crown's prerogative to claim ownerless property cut down by the provisions of the Companies Act? The Companies Act itself provides no explicit answer to this question. The answer is to be found in the various judicial discussions of the relation between the royal prerogative and statute law when the same subject matter is affected by both types of law. It is clear that a statutory provision can cut down the prerogative of the Crown either expressly or by necessary implication. It is quite obvious that it would be useless and meaningless for the legislature to impose restrictions and limitations upon, and to attach conditions to, the exercise by the Crown of the powers conferred by a statute, if the Crown were free at its pleasure to disregard those provisions. In the leading case on the subject Lord Sumner said (*Attorney-General* v. *De Keyser's Royal Hotel, Ltd.* (1920, A.C. 508, 561)):

> The legislature, by appropriate enactment, can deal with such a subject-matter as that now in question in such a way as to abate such portions of the prerogative as apply to it. It seems also to be obvious that enactments may have this effect, provided they directly deal with the subject-matter, even though they enact a *modus operandi* for securing the desired result, which is not the same as that of the prerogative. If a statute merely recorded existing inherent powers, nothing would be gained by the enactment, for nothing would be added to the existing law. There is no object in dealing by statute with the same subject-matter as is already dealt with by the prerogative, unless it be either to limit or at least to vary its exercise, or to provide an additional mode of attaining the same object.

It is against the background provided by this reasoning that the Companies Act has to be construed. The Crown's right to property as *bona vacantia* is expressly mentioned in Section 354 but nowhere else in the Act. There is no mention in either Section 399 or Section 400 of any limitation on the jurisdiction of the Court in favour of the Crown. Secondly, on the presentation of a petition under either of those Sections, Section 404 operates and makes applicable the provisions of Part V of the Act. It follows that to the winding-up of a dissolved foreign company Section 318 (preferential payments) would apply. But it has been held (*Food Controller* v. *Cork* (1923, A.C. 647)) that the Section corresponding to this in the Act of 1908 cuts down or limits the prerogative of the Crown. As Lord Shaw of Dunfermline said in the House of Lords in that case:

> The Crown, as a creditor, is by its assent to this legislation plainly restricted in priority to the limited specification of Crown debts given. It follows that, beyond that point, the Crown assents to an equal division. Any super-eminent right, whether under the name of prerogative or otherwise, has disappeared. The Crown stands plainly bound by that result.

It is thus clear that by the Companies Act of 1948 the extent of the Crown's prerogative is cut down by necessary implication as well as expressly by the joint effect of Section 353 and 354.

The main object of winding-up a company is to procure the realisation of its assets and their distribution among the creditors, including the Crown. On this basis, it is not straining the various provisions of the Act to exclude a general *bona vacantia* claim when a dissolved foreign company is sought to be wound up under Section 400. It has been explained by the House of Lords in *Russian and English Bank* v. *Baring Bros. & Co., Ltd.* (1936, A.C. 405) that the company is deemed for the limited purposes of the liquidation not to have ceased to exist. Lord Macmillam thought it was manifest that the legislature has not been deterred by the fact that a company has ceased to exist from authorising it to to be wound up. Now the purpose of pronouncing a winding-up order is to secure the collection and distribution of the assets of the company to which it relates. The logical enquirer may ask how a company which has ceased to exist can have any assets. But when the legislature authorised the making of a winding-up order in the case of a dissolved company it must be presumed to have intended such order to be effective and to result in the collection and distribution of assets.

If the contention of the Crown in *In re Azoff-Don Commercial Bank* were correct the Act would not work. It would mean that Sections 399 and 400 were a dead letter except on such occasions as the Crown allowed them to have any force—"a curious form of legislation," as Wynn-Parry, J. observed. If the Crown's contention is rejected the Act does work. A complete system of administration is applied to the company's affairs and at the end of the administration any surplus goes to the Crown as *bona vacantia* under Section 354, where and where only the Crown's right to property as *bona vacantia* is mentioned. According to Wynn-Parry, J., the highest title which the Crown can claim to the property of such a company in Great Britain is a defeasible title liable to be

defeated by the winding-up order. It is a title which is liable to be defeated without the Crown's consent and even against its wishes in every case where the conditions prescribed by the Act exist.

Basis of Winding-Up Jurisdiction

It was clearly held in the recent case that it is not a condition for grounding jurisdiction in the Court to wind up a dissolved foreign company that it should be shown to have carried on business in Great Britain some time before its dissolution under foreign law. This point was virtually covered by a decision of the Court of Appeal in 1951, *Banque des Marchands de Moscou* (*Koupetschesky*) v. *Kindersley* (1951, Ch. 112). The Master of the Rolls said that in the case of a foreign corporation which has been dissolved and extinguished in the country where it was established, it is not necessary, as a statutory condition of jurisdiction here to wind it up, to prove that it had, before its dissolution, established at some place in Great Britain a branch or other business and that that business had ceased. On the other hand, as he said, as a matter of general principle, our Courts would not assume, and Parliament should not be taken to have intended to confer, jurisdiction over matters which naturally and properly lie within the competence of the Courts of other countries. He concluded:

> There must be assets here to administer and persons subject, or at least submitting, to the jurisdiction who are concerned or interested in the proper distribution of the assets. And when these conditions are present the exercise of the jurisdiction remains discretionary.

The explanation of the basis of the jurisdiction given by the Master of the Rolls in 1951 in relation to another Russian bank is very much in point in the recent case:

> *Prima facie* if the local law of the dissolved foreign corporation provided for the due administration of all the property and assets of the corporation wherever situate among the persons properly entitled to participate therein, the case would not be one for interference by the machinery of the English Courts. In the present case there are substantial assets standing in the name of the bank or liquidator, and there are persons within the jurisdiction having claims to participate in the distribution of these assets. At the same time, by reason of the total extinction in Russia of the bank and the absence of any machinery under Russian law for the due distribution of the assets among the persons regarded as properly having claims upon them, there would be, unless the machinery of winding-up under the Companies Act is available, no means of any kind existing for the administration of the English assets. The existence of assets here, the presence here of persons claiming as creditors of the bank or said to be indebted to them, seem to constitute at least the *indicia* of a business in some sense formerly conducted here. Where, therefore, the circumstances exist which, upon the general principle above referred to would make the case appropriate for the exercise by our Court of its winding-up jurisdiction, it would appear that the question whether the foreign corporation carried on business in this country would generally be academic, unless it is also necessary to show that that business was carried on directly and from some established or specified place or places in this country.

It is not necessary to show this, for the Master of the Rolls concluded by saying that:

> it is unnecessary as a foundation for a winding-up order to prove that the bank had any branch or office in England or carried on their business operations in England from some established or specific or identifiable place of business.

This was authority for Wynn-Parry, J., to make a winding-up order in the later case. He thought that he would be justified in exercising that jurisdiction if he could "find on the evidence some commercial subject-matter on which a winding-up order can operate." Assets within the jurisdiction is sufficient for an order.

Court's Discretionary Power

As regards the third point taken by the Crown in *In re Azoff-Don Commercial Bank*, Wynn-Parry, J., could see no merit in the suggestion that he should refuse to make a winding-up order which would benefit the petitioners as foreign creditors, but that he should leave it to the Crown to make *ex gratia* payments to English creditors for rouble debts as to the existence of which creditors there was no evidence. He thought that it was a somewhat surprising proposition that this should be done to the exclusion of the petitioners as foreign creditors whose debts were clearly established. The object of a winding-up order is to ensure distribution of the assets among the whole body of creditors. No other basis of distribution would be fair. As Pearson, J., said in *In re Kloebe* (28 Ch. D. 175, 180):

> . . . but whatever the law of France or India may be, the law of England has always been that you must enforce claims in this country according to the practice and rules of our Courts, and according to them a creditor, whether from the farthest north or the farthest south, is entitled to be paid equally with other creditors in the same class. I must refuse to alter that which has always been the law of this country, and which I must say, for the sake of honesty, I hope will always be the law of this country.

The principle to be derived from the decision to make the usual compulsory order for winding-up is that in exercising its discretion under Section 400 of the Companies Act the Court will not discriminate between the financial claims of foreign nationals and British subjects.

The P. D. Leake Professorship of Finance and Accounting

The Council of the Institute of Chartered Accountants in England and Wales is pleased to announce the establishment in the University of Cambridge of the P. D. Leake Professorship of Finance and Accounting as from October 1, 1954, for one tenure in the first instance. The late P. D. Leake, who was a member of the Institute from 1886 until his death in 1949, left the residue of his estate to the Institute to be held in trust and applied for such purposes falling within the legal definition of charity as are likely to benefit and advance the sciences of accounting and political economy, including the subject of public finance and taxation, as shall be determined by the P. D. Leake Committee to be appointed in the manner specified in the will and consisting of members of the Council of the Institute.

The testator stated that he expressly refrained from specifying any particular method of carrying out his desire but he made various suggestions, the first of which was that an annual grant or grants might be made to a selected university or universities to establish and maintain a chair or chairs of accounting. It is therefore with pleasure that the Council of the Institute is able to announce that it has proved possible to establish in the University of Cambridge a Chair which will clearly be in accordance with the wishes of the testator.

The primary concern of the P. D. Leake professor will be the conduct and direction of research and the university is satisfied that a professor with skill in accounting techniques could further the development of economic thought and knowledge in several important ways, for example, the estimation of the magnitudes of the national income and related concepts, measurement of the sources of finance for industry and the extent to which industry is able to provide for its own needs, capital formation and capital theory.

The appointment of the professor rests with the university. The Chair and work associated with it will be financed by an annual grant of £3,000 from the income of the P. D. Leake Trust.

Institute of Cost and Works Accountants—Education Officer

Mr. Thomas B. Degenhardt, M.A., has been appointed Education Officer of the Institute of Cost and Works Accountants. He will be concerned, for the most part, with the activities of the Institute's 12,000 registered students.

Subvention Payments

THE FINANCE ACT, 1953, EXTENDED TO GROUPS OF COMPANIES a form of relief new to British tax. Section 20 of the Act makes it possible, broadly speaking, for a loss or losses incurred by one or more members of a group to be set against profits earned in the same year by the remainder of the group. Thus, the relief is similar to that afforded by the old Rule 13 (now Section 142 of the Income Tax Act, 1952) when two businesses are carried on by the same person. The qualification " broadly speaking " is, however, important: the computation of the relief is not quite so simple as a straightforward set-off of loss against profit. The rules governing subvention payments, their computation and the tax consequences following their being made are contained in the thirteen sub-Sections of Section 20 of the Act. Sub-Section (1) sets out the relief and the manner in which it is to be given in these words:

> . . . where a company has a deficit for tax purposes during any accounting period of the company, and receives a subvention payment in respect of that period from an associated company having a surplus for tax purposes in the corresponding period, then in computing for the purposes of income tax the profits or gains or losses of those companies the payment shall be treated as a trading receipt receivable by the one company on the last day of the accounting period during which it has the deficit, and shall be allowed as a deduction to the other company as if it were a trading expense incurred on that day.

The remainder of the Section defines and qualifies the terms used in sub-Section (1), the most important definition being that of the term " subvention payment " itself.

Definition of " Subvention Payment "

For a payment to be a subvention payment, it must:

(*a*) be made under an agreement providing for the paying company to bear or share a loss, or losses, of the payee company; and

(*b*) be made within 12 months of April 5 following the end of the payee company's accounting period in respect of which the subvention payment is received; and

(*c*) not be a payment which would normally be a taxable receipt in the hands of the payee company or an allowable charge in the computation of profits of the paying company (Sub-Section (2)).

No rules are laid down about the form of agreement necessary. A mere exchange of letters would satisfy the Act. Nor is it necessary that the agreement should exist before the end of the accounting period on which the payment is based—so long as it exists before the actual making of the payment. The agreement may be for one particular loss or may cover also any future losses. It may provide for the reimbursement of the whole of the loss or a fractional part of the loss, and may set an upper limit to the amount of the payment in any year or in total. There must, however, be consideration, however slight: it is suggested that, for example, a mutual agreement by each of two companies to " bear or share " losses of the other would be sufficient consideration.

" Deficit " and " Surplus "

The amount of the subvention payment allowable under Section 20 is limited to the surplus of the paying company or the deficit of the payee company, whichever is the smaller, and these terms mean something more than merely the profit and loss as computed for Case I of Schedule D. They are defined by sub-Section (5). " Surplus " is the adjusted Case I profit *plus* any other income, assessable to income tax, of the year of assessment in which the accounting period ends, *minus* any capital allowances for the year of assessment in which the accounting period ends, made under Parts X and XI of the Income Tax Act, 1952 (other than those allowed in the actual computation of profits), and *minus* also any payments made in that year of assessment to which Sections 169 or 170 of the Income Tax Act, 1952, apply, other than payments brought within Section 170 by Section 318 of the same Act (which applies to purchases of United Kingdom patent rights from a non-resident). The definition of " deficit " is similar. It is the loss computed in accordance with the rules of Case I of Schedule D, *plus* capital allowances and payments within Sections 169 and 170, and *minus* other income for the year of assessment in which the accounting period ends. The payments within Sections 169 and 170 are annual payments, royalties, annuities, yearly interest, and the like from which tax is deducted at the time of payment and which are adjusted in the computation of profits for income tax purposes. The capital allowances to be taken into account do not include any allowances brought froward from previous years, but are confined to actual allowances for the year in question only.

This limit to the subvention payment allowable applies to the total amounts paid by a company making subvention payments to more than one associated company, and to the total amounts received by a company receiving subvention payments from more than one associated company. If, therefore, the subvention payments made by a company for one corresponding period exceed in total the amount of its surplus, or the subvention payments received by a company in respect of one loss exceed in total the amount of its deficit, the excess is to be disregarded for the purposes of Section 20, and the individual subvention payments must be abated " in such manner as may be agreed between all the companies concerned or, in default of such agreement, determined by the Commissioners of Inland Revenue " (Sub-Section (3)). For practical purposes, in the absence of special circumstances, this means that normally they will abate rateably, according to the amount of the individual payments compared with the total amount.

" An Associated Company "

" Company " in Section 20 includes any body corporate, resident in the United Kingdom, and carrying on a trade

wholly or partly in the United Kingdom, but an " investment company " will for this purpose be treated as carrying on a trade so as to bring this type of company (which includes many " holding " companies) within the Section. Sub-Section (9) provides that a subvention payment received by an investment company will be treated as being chargeable under Case VI of Schedule D, whilst a subvention payment made by an investment company will be deemed an expense of management.

One company shall be treated as being the associated company of another provided that both satisfy the definition of company just given, and one is the subsidiary of the other, or both are subsidiaries of a third. " Subsidiary " has the same meaning for this section as it has for profits tax in Section 42 of the Finance Act, 1938, that is to say, the principal company must own, directly or indirectly, 75 per cent. of the Ordinary share capital of the subsidiary. Furthermore, for a company to be an associated company, the relationship of principal and subsidiary must have existed throughout the entire period beginning with the commencement of the payee company's accounting period in respect of which the subvention payment is made and ending with the making of the subvention payment.

" Corresponding Period "

Subvention payments can be made only among members of a group of companies, and the accounting periods of members of a group are usually co-terminous. If the accounting periods of the paying and payee company do coincide, they are corresponding periods and no difficulty arises. If, however, the accounts of the two companies are taken to different dates, or if the accounting periods are not of identical length, then the corresponding period of the paying company will be " such period as the Commissioners of Inland Revenue may determine, being a period of the same length as that accounting period of the payee company " (Sub-Section (6) (*b*)).

General

Sub-Section (8) allows such additional assessments, reduction of assessments or repayments of tax as may be necessary to implement the Section, and for the recovery of any repayment of tax already made under Section 341 of the Income Tax Act, 1952, as may have become excessive by reason of the making of a subvention payment. This recovery may, if necessary, be achieved by assessment under Case VI of Schedule D.

It may happen that the corresponding period in respect of which a subvention payment is made is the basis period for more than one year of assessment, or that it is the basis period for no year of assessment at all. This could happen, for instance, in the closing or opening years of a business. The Act provides against the contingency by laying down that if the corresponding period is the basis period for two or more years of assessment, the relief will be given primarily in the first year, and only in so far as it is not possible to give full relief then will any relief be given in the other years of assessment. If the corresponding period is the basis period for no year of assessment, the relief will be given in the year of assessment following the end of the corresponding period.

The principle is to secure that only such adjustments are made that, in the words of sub-Section (7):

> the aggregate amount of the assessments made on the company is reduced by an amount neither more nor less than the subvention payment.

The provisions of Section 20 apply to income tax and to profits tax, but not to the Excess Profits Levy.

Example

Assume that subvention agreements exist between A, B and C (all companies) extending to the whole of any loss, so far as concerns A and B, and one half of any loss, so far as concerns A and C. All three companies make up their accounts to December 31, and in the year ended December 31, 1953, their results, as adjusted under the Rules of Case I of Schedule D, were:

A.	Profit	£450,000
B.	Loss	£24,000
C.	Loss	£28,000

Adjustments under sub-Section (5) to the Case I figures are necessary:

	A.	B.	C.
	£	£	£
Capital allowances, 1953-54 ...	30,000	6,000	5,000
Other income for 1953-54	12,000	3,000	—
Annual payments made during 1953-54	5,000	—	1,000

The surplus of A is thus:

Profit as for Case I		450,000
Add Other income		12,000
		462,000
Less Capital allowances	30,000	
Annual payments	5,000	
		35,000
Surplus ...		£427,000

And the deficits of B and C are:

	B.	C.
	£	£
Loss as for Case I	24,000	28,000
Add Capital allowances	6,000	5,000
Annual payments	—	1,000
	30,000	34,000
Less Other income	3,000	—
Deficit	£27,000	£34,000

It is clear that the surplus of A is considerably more than the combined deficits of the other two companies, so that the amount of the subvention payments will be determined by the deficits of B and C. The subvention payments will be:

to B the whole = £27,000
to C one half = £17,000

The assessments on the three companies for 1954-55, taking into account the subvention payments will be:

A. £450,000 *less* subvention payment £44,000 ... = £406,000
B. Subvention payment £27,000 *less* loss £24,000 = £3,000
C. Loss £28,000 *less* subvention payment £17,000 = loss £11,000 that is, assessment is *nil*.

Taxation Notes

P.A.Y.E. Tables

As no income tax changes affecting P.A.Y.E. were announced in the Budget, new tax tables will not be issued. The tax tables to be used throughout 1954-55 are those headed "Income Tax Year 1953-54," already supplied for 1953-54.

Finance Bill—Relief for Terminal Losses

The Finance Bill, 1954, takes a new line of country in giving relief for losses against profits of earlier years upon the permanent discontinuance of a business and so implements recommendations of the Millard Tucker Committee on the taxation of trading profits.

The Bill provides that when a trade, profession or vocation is discontinued after April 5, 1954, and it has sustained a terminal loss, the amount of the loss may be set off against the profits of the three years of assessment preceding the year of assessment in which discontinuance takes place. There is provision to prevent double relief. The relief works backwards—it is given against the assessment for a later year rather than for an earlier year.

The amount of the terminal loss is normally the adjusted loss of the last twelve months of the business (found by splitting accounts on a time basis where necessary but ignoring any accounts which have an adjusted profit) together with capital allowances for the same year (found by adding to the allowances of the last year of assessment a proportion of those of the penultimate year, in so far as they are not used against profits or against balancing charges). Capital allowances brought forward are ignored.

Where payments of either dividends or interest are made out of the profits of any of the three years ranking for relief, both the profits and the amount of the terminal loss are reduced by the amount of payment. Interest which, if not paid out of profits or gains brought into charge to tax, could be treated as a loss under Section 345 is not to reduce the amount of the terminal loss available for relief.

Relief for a terminal loss is also available when a partnership is treated as permanently discontinued under Section 19, Finance Act, 1953. Each partner is entitled to his share of the terminal loss against his share of the profits except where he continues as a partner in the new firm. (When the loss is relieved under the said Section 19 by set-off against profits after the change).

If, however, there is a further change which is treated as a permanent discontinuance and he then ceases to be a partner, he becomes entitled to relief for the three years despite the fact that there had been a previous change.

Interest or dividends which would be deemed to be trading receipts are to be added to the profits of the year of assessment in which they are received and relief given accordingly before relief is given for an earlier year. This can only affect such companies as investment dealing or finance companies.

"Terminal" relief is available to a person occupying woodlands who has elected to be assessed under Schedule D, Case 1.

Example 1:

Accounts to December 31	Adjusted Profit	Adjusted Loss	Dividend paid out of the Profits of the Year		Capital Allowances
	£	£	£		£
1951	1,540	—	200	1952-53	360
1952	840	—	150	1953-54	320
1953	470	—	—	1954-55	500
1954	200	—	—		—
9 months to September 30, 1955	—	800	—	1955-56	250

Terminal Loss:

	£
Loss, 9 months to September 30, 1955 ...	800
Profit, 3 months to December 31, 1954, ignored	
Capital Allowances, 1955-56	250
1954-55, 500 × 3/12 ...	125
	£1,175

Profits for Relief:

1945-55 Assessment		£470		
Capital Allowances (pt. 500)		£470		
1953-54 Assessment		840		
Less Capital Allowances ...	£320			
Dividend	150			150
	—	470		
		370		1,025
Terminal loss used ...		£370		370
				655
1952-53 Assessment		1,540		
Less Capital Allowances ...	£360			
Dividend	200			200
	—	560		
		980		455
Terminal loss used ...		455		£455

Example 2:

A, B and C had equal shares in a partnership, the accounts of which were made up to June 30. A died on December 31, 1953 and B retired on September 30, 1955. There was no loan interest paid or received. The profits are as follows:

June 30	Profits	Loss
	£	£
1951	3,000	
1952	2,400	
1953	1,200	
1954	300	
1955		600
1956		1,400

The assessments were as follows:

		Total	A	B	C	
		£	£	£	£	
A, B and C 1952–53		3,000	1,000	1,000	1,000	
A, B and C 1953–54	$\frac{1}{3}\times 1,200$ + $\frac{1}{2}\times 300$	450	150	150	150	
B and C 1953–54		75	—	37	38	
B and C 1954–55	$\frac{1}{2}\times 300$ — $\frac{1}{2}\times 600$	nil	nil	nil	nil	Loss £150
B and C to September 30, 1955 1955–56		nil	—	nil	nil	Loss

B has a half share of the terminal loss for 1955-56, i.e. for the year to September 30, 1955, half of $\frac{2}{3}\times 600 + \frac{1}{2}\times 1,400 =$ 400.

The profits for relief are:

1954–55	nil	
1953–54	37	
	150	
	187	
Terminal loss used	£187	£187
		213
1952–53	1,000	
Terminal loss used	213	£213

Income Tax Returns

As few people seem to read the Notes issued with Returns, we think these reminders may not be misplaced!

Wounds, disablement and disability pensions, etc. and bounties or gratuities to members of H.M. Forces.

The following are not taxable and should be omitted from the Return:

(*a*) Pensions granted on account of wounds, disablement or disability attributable to military, etc. service;

(*b*) Disablement under the National Insurance (Industrial Injuries) Act, 1946;

(*c*) Allowances in respect of children granted by the Ministry of Pensions to widows of members of H.M. Forces;

(*d*) Bounties to members of H.M. Forces who volunteer for a further period or who are called up for a period of service under the Reserve and Auxiliary Forces (Training) Act, 1951;

(*e*) Sums paid to members of H.M. Forces on account of the Korea gratuity.

Interest, dividends, annuities and other annual payments, not taxed at the source.

Care should be taken to include any income received or credited for the year ended April 5 in respect of interest on bank (including Post Office or other Savings Bank) accounts or deposits; interest from Industrial and Provident Societies (including Co-operative Societies) on mortgages, loans, deposits or share capital (but not

dividends on purchases); interest or dividends on Government and Corporation securities from which tax is not deducted at the time of payment; and discount on Treasury Bills.

These items will include:

(i) Interest on 3½ per cent. War Loan Stock registered at the Bank of England or the Bank of Ireland, except where application has been made to the Bank to deduct tax or where the security is held in the form of bearer bonds;

(ii) Interest or dividends derived from United Kingdom Government securities held on the Post Office Register;

(iii) Dividends not exceeding £5 per annum from Government or Corporation securities registered at the Bank of England or the Bank of Ireland and interest on registered Housing Bonds, where the aggregate holding does not exceed £100.

(iv) All dividends from stocks held through any Savings Bank.

The following are not normally liable to income tax where the securities are in the beneficial ownership of persons who are not ordinarily resident in the United Kingdom:

Interest or dividends on 3½ per cent. War Loan, 3 per cent. War Loan, 1955-1959, 4 per cent. Funding Loan, 1960-1990, 4 per cent. Victory Bonds, 3 per cent. Defence Bonds (Third and Fourth Issues), 2½ per cent. National War Bonds, 1952-1954, 3 per cent. Savings Bonds, 1955-1965, 3 per cent. Savings Bonds, 1960-1970, 3 per cent. Savings Bonds, 1965-1975 and 2½ per cent. Defence Bonds.

The following items are exempt from income tax and should be omitted from the Return:

(*a*) Accumulated interest on National Savings Certificates;

(*b*) Accumulated interest on Ulster Savings Certificates issued by the Government of Northern Ireland and held by persons resident and domiciled in Northern Ireland either at the time of acquisition or at the time of encashment; and

(*c*) Interest on Tax Reserve Certificates issued by the Treasury.

Building society interest received

This must be included in the appropriate part of the return at the actual amount received. For income tax at the standard rate, that is the income, though for sur-tax it will be grossed up by reference to the standard rate.

Income from the Republic of Ireland

A recent inquiry indicates that it is not always appreciated that a resident in the United Kingdom must pay United Kingdom income tax on income arising in the Republic as though it were United Kingdom income.

This means that the Republican income to be included in the United Kingdom income has to be brought in on the following bases:

(*a*) Securities in the Republic (Case IV) and stocks, shares, rents, and other possessions (Case V) other than those included in (*b*) below;	On the income arising in the year of assessment, whether remitted to the United Kingdom or not. The same deductions are allowable as if the income arose in the United Kingdom, also annual interest, etc. payable to persons not resident in the United Kingdom;
(*b*) Income from carrying on any trade, profession or vocation in the Republic;	The income of the preceding year with the usual adjustments for new businesses, etc.;
(*c*) Income from an office, employment or pension in the Republic.	As in (*a*).
(*d*) Property owned and occupied in the Republic.	The net annual value for Schedule A in the Republic.
(*e*) Occupation of land.	Schedule B assessment in the Republic (the annual value under the Valuation Acts — amenity lands, one-third).

The Reform of Taxation in Ireland

In December last the Minister for Finance in the Republic of Ireland appointed an Industrial Taxation Committee with the following terms of reference:

> To examine the effect of taxation on industrial production, with particular regard to the extent to which the incidence of income taxation constitutes a deterrent to the maintenance, modernisation or extension of productive capacity; and, having due regard to the interests of the general body of taxpayers, to make recommendations as to any amendments of the existing law or practice that may appear necessary and practicable.

The views and suggestions of the Council of the Society in Ireland have been set out in a memorandum. The Council first of all reviews the volume and incidence of taxation, pointing out the heavy drain from the community into the National Exchequer, which showed an increase of over 220 per cent. in 1952-53 compared with 1937-38. The national income in the corresponding period increased by only 157 per cent. It is generally felt that the heaviest burden falls on those who are thrifty and save and invest part of their earnings: the very people who respond to demands to risk capital in business ventures and plough back profits to build up prosperous businesses.

The effect upon industry of inflation coupled with taxes on excess profits is mentioned. In particular, it is pointed out that the maintenance of factory buildings and industrial plant and machinery in a proper state of efficiency is material to the well-being of the State and employment of workers. Ministerial pronouncements indicate a desire for increased productivity and lower costs and it is felt that a considerable contribution would be made by a reduction in the present burden of taxation. Income tax, corporation profits tax and sur-tax are charged on artificial profits on a tax-computed basis representing a higher proportion of actual profits than computed on sound accountancy and commercial principles.

The memorandum suggests reliefs largely based on the reliefs which have been given in the United Kingdom. The particular recommendations can be summarised as follows:

(1) An allowance should be made for depreciation of industrial buildings apart from the mills, factories allowance;

(2) An initial allowance should be granted in respect of premiums on leases and it ought to be possible to write off the cost of leases over their lifetime;

(3) Wear and tear allowances for plant and machinery, etc. should be based on replacement cost. If this is not possible then the annual rates of allowances should be increased and an initial allowance introduced. The basic rates of depreciation in the Republic of Ireland have not been revised since the rates were introduced, whereas in the United Kingdom the allowances have progressively increased until today they are 25 per cent. above basic rates;

(4) Balancing allowances should be introduced to take up the loss when assets are put out of use without being replaced. The existing obsolescence allowance operates only if there is a replacement;

(5) Reliefs should be given for expenditure on patents, trade marks and development;

(6) Expenses of a revenue nature incurred before commencing business should be allowed in computing the assessable profits of the first accounting period;

(7) The time limit on the carry-forward of losses should be abolished;

(8) For corporation profits tax, relief should be allowed for losses; the maximum allowance for directors' remuneration in director-controlled companies should be amended to compare more favourably with the remuneration paid by public companies; interest on loans from controlling directors ought to be allowable as a deduction (the bank rate is suggested as a maximum); and interest on permanent loans should also be allowed;

(9) For sur-tax purposes, when directors' remuneration is disallowed for the purpose of corporation profits tax, the amount so disallowed should not be included in the sur-tax computation. If it is treated as income then the corporation profits tax already paid on it should be deducted;

(10) The exemption from, or abatement of, tax on legitimate sums placed to reserve to provide additional working capital should be contemplated. Individuals should also be exempted from sur-tax in respect of profits not withdrawn from the business for private or investment purposes;

(11) Reform of the method of computing profits for taxation purposes is recommended to bring the profits more into line with sound accountancy and commercial principles.

Submissions to Royal Commission —(1) Oversea Mining

The Royal Commission on the Taxation of Profits and Income has started on what are expected to be the final three public sittings. Various organisations have been invited to give oral evidence.

At the first of the sessions evidence was given for the *British Overseas Mining Association*, which had already submitted a memorandum to the Royal Commission. Part of this memorandum has already been met by Section 21 of the Finance Act, 1953, allowing the remittance basis of assessment for blocked currencies, and Section 26, Finance Act, 1953, removing the restriction on unilateral double taxation relief. The memorandum points out that the position of British mining companies operating in overseas territories is difficult. The growth of local nationalisms and the increased rates of taxation in oversea countries make the imposition of United Kingdom income tax and profits tax crippling in many cases. In most territories British mining companies have to compete with locally owned companies and very often with American companies. The liability to United Kingdom taxation inevitably handicaps them in that competition. The Association considers that oversea mining companies should pay tax only on profits remitted to the United Kingdom.

They also submit that the income arising to non-resident shareholders in United Kingdom companies carrying on mining abroad should be exempt from United Kingdom income tax. The profits tax should be abolished. They also consider that the rule in *McMillan* v. *Guest* (24 T.C. 190) should be dealt with by statutory provision so that non-resident directors of United Kingdom companies performing the duties of their office abroad should not be taxed on their remuneration.

They also ask for a tax free allowance in respect of mining profits to cover depletion. On the question of stock valuation they submit that the LIFO method of valuation or the base-stock method should be permitted so long as it is consistently adopted. The present practice under which the stocks are valued at cost or market value, whichever is the lower, should also be retained. Dividends paid out of capital profits earned by an oversea company should not be treated as income when remitted to this country, as was held in *C.I.R.* v. *Reid's Trustees* (30 T.C. 431). The system of relief for double taxation is criticised and certain suggestions made. The Association submit that Section 468, Income Tax Act, 1952, should be repealed.

The evidence given commented on the fact that no new mining company had been set up in the United Kingdom since 1939. Unless there were some really drastic changes in our tax system it was unlikely that any further companies would be registered here. The general remedy was a differential rate in favour of profits arising overseas and the widening up of unilateral relief to take care of some of the indirect taxes or taxes which were not levied specifically on income. A percentage depletion allowance was also desirable, possibly the difference between a rate around 7s. 6d. and the United Kingdom rate. As to how far the shrinkage of money put into overseas mining companies controlled from the United Kingdom was due to nationalistic or local pressure to have control where the profit was made, it was difficult to assess the relative importance of the tax burden as opposed to other factors such as local pressure. Mining companies more than others were hostages to fortune. A local administration could exert strong pressure so as to prevent a mining company operating at all. Overseas governments were very sensitive to the British tax burden and examples were given where a percentage depletion allowance was not to be available in the case of taxpayers who were resident in countries where similar allowances were not available. The Chairman emphasised that the Commission's problem was to try to separate the things which were not taxation elements which led to expatriation of control from those which were tax factors. The Association's representative said that they had found it practically impossible to disentangle the elements but they regarded the tax reason as sufficiently strong to prevent a company coming to the United Kingdom.

(2) University Teachers

The *Association of University Teachers* had presented a memorandum to the Commission and largely repeated the gist of this in oral evidence. It was pointed out that the obligations of a university teacher were not contractual and were nearer those of independent professional practice as in medicine or architecture. The nature of their work was such that the wording of Rule 7 of Schedule E imposed considerable hardships. The rigidity of the test on the allowability of expenses had its biggest effect on the younger members of the profession who had not established themselves and, therefore, had no opportunity of doing outside work. Those who were doing outside work were able to put lecturing and examining under Schedule D and, therefore, obtained reliefs which were not available under Schedule E. In particular, it was suggested that there should be allowed under Schedule E, on the same basis as Schedule D, expenses such as the cost of books and journals purchased for use in research

and teaching; travelling expenses certified necessary by the university; reasonable entertaining expenses on account of visitors and students; subscriptions to professional and cultural bodies connected with university subjects generally ; and expenses of a study.

(3) National Health Whole-Time Specialists

The *Whole-time Consultants' Association*, whose members hold whole-time appointments as medical specialists for the National Health Service, submitted a memorandum on the same topic. Their evidence urged that reasonable and necessary professional expenses should always be allowed as a deduction in arriving at tax liability on the same grounds as they would be allowed under Schedule D. In particular there were mentioned subscriptions to specialists' medical societies; expense of attending meetings and conferences arranged by such societies; costs of maintaining a suitable library and costs of medical periodicals; replacement of instruments and appliances; telephone expenses; and a study in appropriate cases.

Farmers' Income Tax

Her Majesty's Stationery Office have issued a revised edition of this pamphlet (price 1s. net) incorporating changes up to and including Finance Act, 1953. It follows the familiar form and it might be worth while to give a copy to certain clients ! Accountants may find it reminds them of items that have slipped into the background. For example, it is sometimes forgotten that:

> where the normal value of tillages, unexhausted manures and growing crops does not exceed £700, and a detailed valuation is not available, a certificate that the value at the beginning of the year did not differ materially from that at the end of the year will usually be accepted.
>
> Even where the normal value exceeded £700 a valuation will not be pressed for in every case, and a similar certificate may be accepted after any inquiry necessary to establish its reasonable accuracy.
>
> The object of the above arrangement is to assist farmers by enabling a detailed valuation to be dispensed with in such cases.
>
> This arrangement, which is limited to cases where detailed valuations are not available, does not prevent a farmer, who so desires, from bringing into his accounts a full detailed valuation of tenant right or waygoing rights and liabilities at the beginning and end of each year. Any farmer who makes a detailed valuation is at liberty to put in that valuation and should in fact do so. The valuation should be made on precisely the same basis as is proper for valuing an outgoing tenant, or, in the case of an owner-occupier, as for an outgoing tenant with no written tenancy agreement.

The description of the herd basis could hardly be bettered. But how many farmers would agree that the cost of boarding a worker is the difference between the wages paid to him and what he would get if not boarded? Yet that is a common yardstick unless the cost can be ascertained more exactly.

The Committee stage of the Finance Bill is the subject of a Professional Note headed Making Allowances . . . *on page 251 of this issue.*

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT.

INCOME TAX

Charity — Settlement — Imperative direction to trustees to distribute whole of income of trust among a number of persons and classes of persons including, finally, respondent charitable trusts—Absolute and uncontrolled discretion of trustees—Class of beneficiaries membership of which unascertainable at any given moment—Whether gift of income void for uncertainty—Income Tax Act, 1918, Section 37.

C.I.R. *v.* Broadway Cottages Trust, C.I.R. *v.* Sunny Lands Trust (Ch. March 11, 1954, T.R. 77), were two cases found to be indistinguishable, heard together and covered by one judgment of Wynn-Parry, J. One of the by-products of present levels of capital and income taxation has been the creation of discretionary trusts, often of a very complex nature, settlors of large means transferring income or capital to trustees and giving them directions and powers usually coupled with very wide discretions on the distribution of the income and capital of the trust funds between persons or bodies specified in schedules of beneficiaries. Many of these settlements are flexible in character, providing for additions either to the trust funds or to schedules of beneficiaries or to both.

In the present cases, the respondents were admittedly charities. They had received income from the trusts which had been taxed at the source, and the Special Commissioners had decided that there was a valid and effective trust of the income of each trust fund and that respondents were entitled to exemption from income tax under Section 37 of the Income Tax Act, 1918. Wynn-Parry, J., reversed their decision, holding that in both cases the trusts were void for uncertainty not only as to capital but also as to income. From the judgment it would seem that whilst it was agreed that the trusts relating to capital were void, it was argued for the respondents that this did not invalidate the trusts relating to income. As to this, referring to *In re Ogden* (1933, Ch. 678) and to *In re Gestetner's Settlement* (1953, Ch. 672; 32 A.T.C. 102)—noted in our issue of September, 1953, at page 298—his lordship said as regards Lord Tomlin's judgment in the former case:

> The statement of principle which, in my opinion, emerges from the judgment is that an imperative trust for the distribution of a fund (whether capital or income appears to me to be immaterial) among a class or such members thereof as the selector may select depends for its validity on the answer to the question; is the class capable of ascertainment? If the answer is "yes," the trust is valid; if the answer is "no," it is void for uncertainty.

He had already held the income clause of the settlement to be an imperative direction to the trustees to distribute the whole of the income of the trust funds, and it had been agreed that the class of beneficiaries was one the members of which were unascertainable at any given moment.

It is to be observed that where the subject of a tax case is a trust or settlement, in fact, anything within the domain of Chancery, the Revenue practice is to employ as additional counsel an eminent member of the Chancery Bar, whilst the judges themselves are on ground familiar to them. (It is otherwise where the income tax code is involved. There, the Chancery judges have to rely upon counsel to a much larger

extent). A complex settlement must be well drawn up if it is to emerge unscathed from such scrutiny.

Earned income relief—Charges on income in respect of building society interest and bank interest on overdraft—Whether deductible in computing earned income relief—Income Tax Act, 1918, Sections 17, 27(5), 36, Fifth Schedule, No. XVII—Finance Act, 1925, Section 15—Finance Act, 1927, Section 40(3)—Finance Act, 1948, Section 27(2).

In **Lewin *v.* Aller** (Ch. March 12, 1954, T.R. 83), the appellant had for the year 1950-51 paid building society interest £56 and interest on bank overdraft £29 in addition to mortgage interest £85. As against this total of £170 there was £52 charged under Schedule A, leaving a balance of charges amounting to £118 which the Revenue claimed should be deducted from his earned income £1,516 before computing earned income relief. The appellant contended that under Section 17 of the Income Tax Act, 1918, no allowance, deduction or relief was to be given in respect of income the tax on which he was entitled to charge against any other person or to deduct, retain or satisfy out of any payment but that neither the building society interest nor the interest on bank overdraft was such income and, as a consequence, there should be no restriction of earned income relief by reference to them. The General Commissioners had upheld the Revenue view; and Wynn-Parry, J., held that their decision was correct.

Whilst as regards the bank interest paid by the appellant there would seem to be no question but that, as counsel argued and the judge agreed, the matter was "shortly and completely concluded by the language of Section 40(3) of the Finance Act, 1927," the position as to the building society interest was both curious and interesting, one which would in fact have appealed to Rowlatt, J. The long-standing arrangement—there were originally two alternative arrangements—whereby the principle of taxation at the source was abandoned may be termed the illegitimate outcome of an irregular relationship established between the Revenue and the societies; and it was not until more than 50 years had elapsed that Parliament by Section 23 of Finance Act, 1951, legitimised the method.

Nevertheless, the legal maxim *res inter alios acta* . . . applied for all years prior to 1952-53, and the right of a mortgagor under Rule 4 of No. VII of Schedule A, Income Tax Act, 1918, to deduct tax from interest payable to a building society remained unimpaired although, normally, insistence on this would have been profitless to him. In other words, although the appellant had not deducted tax and the building society would have strenuously objected to his so doing, the right to deduct brought it within Section 17 of the 1918 Act and appellant's case was actually weaker than he knew. Needless to say, counsel for the Revenue, although he would be fully aware of the position, did not take this point, probably by reason of another legal maxim.

In the course of his judgment, Wynn-Parry, J., said:

> As I read Section 15(3) of the Finance Act, 1925, and paragraph XVII of the Fifth Schedule to the Income Tax Act, 1918, the object of that legislation was to prevent . . . double relief.

This reading, however, is clearly erroneous, No. XVII being one of the oldest features of the income tax code. It goes right back to the Act of 1806 at the beginning of the modern tax and except that the fifth of its five sub-paragraphs only dates from the Act of 1842 when the tax was re-introduced and it was radically reduced in the Income Tax Act, 1918, it has remained substantially unaltered throughout the whole period. Originally, there was no question of any "double relief," but persons whose total incomes were less than £150 per annum were entitled to claim exemption from the tax, and the first four sub-paragraphs of No. XVII provide the necessary form of declaration. As regards the fifth and final sub-paragraph, which still remains in its truncated form, neither its original nor its present object is clear. By the third sub-paragraph the declarant was required to show "the interest, annuities or other annual payments to be made out of the property or profits assessed on the claimant," but nothing was or is said about his deducting any tax therefrom. This comes in the fifth sub-paragraph, which originally required full particulars of the payments, etc.

> out of which he may be entitled to deduct or retain any portion of the duty charged upon him and of any charge he may be entitled to make against any other person for any portion of the duty.

Taxation at the source was still a novelty at the time No. XVII was enacted and it was probably deemed desirable in 1842 to have full particulars in order to protect the Revenue.

Repayment Claim—Settlement—Monthly payments to trustees under covenant—Discretionary trust for benefit of individuals including settlor's relatives, employees of companies of which settlor director, ex-employees of such companies, relatives of employees and ex-employees and other persons named by the settlor from time to time excluding himself and any wife of his—Whether trust void for uncertainty—Whether perpetuity rule infringed.

Innes *v.* Harrison (Ch. March 11, 1954, T.R. 81) was a case in which another discretionary trust was weighed in the balances and found wanting. The settlor had covenanted to pay to trustees monthly for the appointed period the sum of £106 13s. 4d. and they were to pay or apply the trust fund for the benefit of the "objects of the trust," one or more of them, as they in their discretion from time to time should think fit. The respondent had married a daughter of the settlor and the trustees had paid to him for the benefit of his son, a minor, the sum of £385 representing £700 less tax at 9s. He had claimed repayment of tax in respect of personal allowances; and the claim had succeeded before the General Commissioners who, pardonably, did not consider themselves required or competent to decide whether the deed was void for uncertainty. Wynn-Parry, J., reversed their decision. He commenced his judgment by declaring that:

> The judgment in *C.I.R.* v. *Broadway Cottages Trust* and *C.I.R.* v. *The Sunny Lands Trust* covers this case also but perhaps I ought shortly to state my views on the further point taken by the appellant that the trust . . . offends against the rule against perpetuities. . . .

As he had first found that the trust was in law void for uncertainty it would seem that all else was *obiter*. Nevertheless, his view was that the perpetuity rule was also infringed, with the result that in either event there was a resulting trust in favour of the settlor. The case is another illustration of the perils in the path of the draftsman of such deeds.

Sums received from exploitation of film rights—Grant of exclusive right to respondent to exploit film in United Kingdom, Eire, the Channel Islands and the Isle of Man in consideration of lump sum and share of surplus—Grant to company of exclusive rights to exploit film in consideration of share of receipts—Whether respondent's share of receipts assessable—Income Tax Act, 1918, Schedule D, Case III, Case VI.

Mitchell *v.* Rosay (Ch. March 10, 1954, T.R. 87) arose out of contracts dealing with the exploitation of a film. The respondent had played the leading part in a film made in Switzerland early in the last war. In 1945 she had heard that an altered copy had been brought to England and in the same year she entered into an agreement whereby she acquired exclusive rights of exploitation of the film in the United Kingdom, Eire, the Channel Islands and the Isle of Man. She was also

given other rights including that of alteration. She had paid £1,000 on the signing of the agreement and it had also been agreed that, subject to certain expenses, all sums derived from the exploitation of the film should be divided with the other party to the agreement. On January 1, 1946, she had entered into an agreement with a company called Film Traders, Ltd., by which the company was given exclusive rights for the period covered by the first agreement in consideration of her being first recouped the £1,000 paid by her and also being given 70 per cent. of the surplus which was variously described as "gross receipts and profits," Film Traders, Ltd. taking the remaining 30 per cent. She had apparently received £3,848, which after deducting £1,000 left £2,848, of which £1,424 was payable to the other party to the 1945 agreement. The Revenue had assessed her in the sum of £1,424, conceding that the £1,000 was not assessable. On appeal, the Special Commissioners had decided that the case could not be sufficiently distinguished from *Nethersole* v. *Withers* (1948, 27 A.T.C. 23; 28 T.C. 514) and *Earl Haig's Trustees* v. *C.I.R.* (1939, 18 A.T.C. 226; 22 T.C. 725), and that none of the receipts was assessable under Case III or Case VI. Wynn-Parry, J., reversed their decision, holding that the sums received by the respondent were a portion of the profits from exploiting the film and were income assessable under Case III.

His Lordship said that on the acquisition of rights under the 1945 agreement, the respondent had complete choice between exploiting those rights in such a way that she would receive a capital sum, or exploiting them in such a way that she would receive an income profit, and it appeared to him that the whole case depended upon the true construction and effect of the January, 1946, agreement. By that agreement she was to be entitled to recoup herself the £1,000 above-mentioned and the surplus was a sum which "quite clearly in the hands of the other party is profit." He said that the agreement did not go on the basis that she was to receive any specified sum but the amount was to be calculated by a formula and was dependent upon the chances of rise and fall in the receipts of the business of Film Traders Ltd. Looking at the January, 1946, agreement alone, he said that he came unhesitatingly to the conclusion that, whilst there was no question of the respondent herself carrying on a business assessable under Case I, what she had received was income in her hands assessable under Case III, and that the judgment of Jenkins, L.J., in *Purchase* v. *Stainer's Executors* (1952, A.C. 280; 30 A.T.C. 291; 32 T.C. 367), entitled him to come to that conclusion. As regards the *Earl Haig's Trustees* and *Nethersole* v. *Withers* cases, both of these were in his opinion distinguishable and neither of them governed it. After examining the facts and judgments, he said he rejected the invitation by counsel for the respondent to join those two cases and extract from them the result that a transaction which bore every indication of being commercial was to be regarded as one in which there had been an assignment of part of the copyright for a consideration measured by the profit in the hands of Film Traders Ltd., with the odd result that what was profit to the company was converted to capital in the hands of the respondent. With respect, however, it may be pointed out that this was actually so in the *Haig* case, the share of Mr. Duff Cooper in the sums received for the use of Earl Haig's diaries being regarded as part of his receipts as author under Case II of Schedule D; but what was apparently not disputed to be an income receipt in his case was nevertheless held to be capital in the hands of the trustees.

The main difficulty would seem to be presented by the *Earl Haig's Trustees* decision. There a contract which by its form might have been regarded, it would seem, as giving rise to payments of an income character was in the special circumstances held to be such that, in the words of Lord Normand:

> The result of the transaction is that to a large extent the publication value of the diaries is exhausted,

and, in the words of the same judge, the payments received by the trustees

> were not profits or gains . . . but merely capital payments for the partial realisation of an asset.

In the case under review, the assignment was, apart from the rights of alteration, one of the whole of the respondent's rights and, although what she received would seem to be correctly held to be taxable as income, on comparing the contracts in the two cases it is not easy to reconcile the present decision with that in the *Haig* case. On the other hand, the *Nethersole* v. *Withers* decision was clearly upon a basically different transaction, the appellant making an assignment of the whole of her rights for a lump sum.

Schedule D—Member of honorary medical staff of voluntary hospital—Endowment policy on life of member—Premiums paid by hospital—If hospital should become State-controlled policy to be assigned to member—Assignment to member—Whether surrender value part of remuneration—Income Tax Act, 1918, Schedule D, Case II.

Tait *v.* Smith (Ch. March 10, 1954, T.R. 75) was a result of the National Health Service Act, 1946. The respondent was a member of the medical staff of a voluntary hospital who prior to 1937 had given his services without payment. In that year there was adopted a scheme which was designed to give some recognition of the professional services given voluntarily by the honorary medical staff, endowment assurance policies being taken out on the lives of the individual members and the board of management paying the premiums. In 1942 and thereafter the board paid to the members of the honorary staff the differences between £125 and the respective premiums. By a provision of the 1937 scheme, in the event of the hospital becoming State-controlled the policy on the life of each member of the honorary staff was to become his sole property. The payments made to the members had been assessed under Schedule D as part of their respective professional incomes. In 1946 a separate contract of service had been offered to each member, and it was agreed that no further premiums should be paid by the hospital and that each member's policy should be forthwith assigned to him. The formal assignment to the respondent was made on May 19, 1948, and an additional assessment under Schedule D had been made for the year 1949-50, although from the judgment it would seem that "at least one other provisional assessment for the year 1948-49" had been made. The General Commissioners had said:

> We, the Commissioners who heard the appeal, decided that the surrender value of the policy was not assessable to income tax, and we allowed the appeal

and this unfortunate wording raised the question whether it was a finding or only a decision. Wynn-Parry, J., said he would have been inclined to remit the case for clarification but for a second point raised upon behalf of the respondent, that 1949-50 was the wrong year of assessment. As to this, he held that at some time in 1946 previous to December 31, 1946, the respondent had become absolutely entitled in equity to the benefit of the policy and could have required the board at any time to procure the transfer to him of the legal estate. He, therefore, held that point succeeded, although

> I might have had some slight hesitation in taking this course if I had not been informed . . . that the Crown feels itself free to proceed under the other provisional assessment.

Unless, however, an assessment had also been made for a year other than 1948-49 it is difficult to see what advantage will accrue to the Revenue. Failing some "gentleman's agreement," it would seem that any liability for 1946-47 would not be under Schedule D but under Schedule E as arising in that year from an office of profit.

Tax Cases—Advance Notes

By H. MAJOR ALLEN

HOUSE OF LORDS

Morgan *v.* Tate & Lyle Ltd. June 1, 1954.

The decision of the Court of Appeal was reported in ACCOUNTANCY for September, 1953, at page 298-9.

The House of Lords (by a majority) affirmed the decision of the Court of Appeal and thus upheld the original decision of the City of London Commissioners in favour of the company.

COURT OF APPEAL

Dreyfus Foundation *v.* C.I.R. June 3, 1954.

The facts in this case and the decision of Wynn-Parry, J., were noted in ACCOUNTANCY for April, 1954, at page 148.

The Court of Appeal rejected the appeal of the Foundation.

CHANCERY DIVISION (Harman, J.)

Granville Building Co. Ltd. *v.* Oxby. May 19, 1954.

Facts.—The company carried on the business of land developers and speculative builders. In 1939 it built two houses (on an estate developed by it) which were not offered for sale, but were let to tenants. In 1942, following a resolution of the directors that the properties should be held as investments, they were so described in the company's balance sheet. Between that date and 1950, the tenant of one of the houses made offers to purchase it, which were refused. In 1950, however, the company, being unwilling to make improvements which the tenant desired, sold the house to him. On appeal against an assessment which included the profit on the sale, the Commissioners held, in effect, that the sale was made in the ordinary course of the company's trade. The company appealed.

Decision.—Held, that there was evidence upon which the Commissioners could properly have arrived at their conclusion.

C.I.R. *v.* Lactagol Ltd. May 20, 1954.

Facts.—The company, which was controlled by its directors, paid a sum of money to a shareholder as consideration for a restrictive covenant. (It was not alleged that the bargain was other than a *bona fide* commercial transaction). An assessment to Profits Tax was raised upon the footing that the payment constituted a distribution by the company within Section 36(1)(*c*), Finance Act, 1947. On appeal, the Special Commissioners decided that the payment was not applied "for the benefit of" the member and reduced the assessment accordingly.

Held, that the Special Commissioners' decision was correct—*C.I.R.* v. *Chappie Ltd.* (34 T.C. 509) distinguished.

[It is understood that the Crown is appealing against this decision.]

Mitchell *v.* Mayhew. May 21, 1954.

Facts.—A vicar claimed a deduction under Rule 9 of Schedule E in respect of a sum of £8 expended in entertaining his bishop on the occasion of a confirmation service. The General Commissioners found that the expense was wholly, exclusively and necessarily incurred by the vicar in the performance of his duties. The Crown appealed.

Decision.—Harman, J., after commenting adversely upon the attitude of the Crown to the case, remitted it to the Commissioners to state how the sum was made up, and what was the custom of parish priests in the diocese regarding the furnishing of hospitality to the bishop.

Stow Bardolph Gravel Co. Ltd. *v.* Poole. May 21, 1954.

Facts.—The company, which carried on the business of sand and gravel merchants, entered into a contract with a landowner by which the latter purported to sell to it for £2,000 some deposits of sand and gravel, allowing the company access to the land upon which the deposits lay for the purpose only of removing sand and gravel, and by a single gateway only. No interest in the land was granted by the contract, nor was there any limit of time within which the gravel etc. was to be removed.

The company claimed the £2,000 as an expense of acquiring stock-in-trade, while the Revenue contended that the £2,000 represented the cost of a capital asset, namely, the right to get and carry away the gravel. The General Commissioners held that the £2,000 was not an admissable deduction.

Decision.—Held, that the £2,000 was the price paid for stock-in-trade, and was deducted as a trading expense.

C.I.R. *v.* Tate & Lyle Ltd. May 25, 1954.

Facts.—The capital of the company was reduced, with the sanction of the Court, by repaying 5s. out of each £1 of Ordinary stock. The repayment was satisfied by the distribution to the stockholders of one 5s. Ordinary share in Tate & Lyle Investments for each £1 of Ordinary stock and one 1s. Ordinary share in Silvertown Services for each £4 of Ordinary stock. The Revenue contended that the transaction constituted the distribution of assets in kind to the stockholders, within Section 36, Finance Act, 1947. The Special Commissioners held that no part of the transferred assets constituted a distribution, and, alternatively, that the whole of the value of the transferred assets was a sum applied in reducing share capital and accordingly was not a distribution.

Decision.—Held, that the Crown's appeal failed. *C.I.R.* v. *Universal Grinding Wheel Co. Ltd.* (1953, Ch. 499—see ACCOUNTANCY, August 1953, page 264) applied.

[It is understood that the Crown intend to appeal against this decision.]

C.I.R. *v.* Pullman Car Co. Ltd. May 26, 1954.

Facts.—As part of a capital reconstruction, the Preference shareholders in the company received, in place of each 20s. Preference share, a 6s. Ordinary share and 14s. income stock. The income stock carried the right to interest at 5 per cent. per annum. The interest was payable only out of profits, but was cumulative. For Profits Tax purposes the Revenue claimed (1) that the so-called "interest" was a distribution of profit, and hence could not be deducted in computing profits; and (2) that, so far as paid to holders of Ordinary shares, it formed part of the company's gross relevant distributions.

Decision.—Held, affirming the decision of the Special Commissioners, that the

interest" was true interest and not a distribution of profit. The second point, accordingly, did not arise.

Moorhouse *v.* Dooland. May 27, 1954.

Facts.—D. was employed as a cricket professional by the East Lancashire club. By his service agreement he was entitled to a salary, and by the rules of the Lancashire Cricket League he could arrange for friends and others to make collections among spectators if he scored 50 runs, did the "hat-trick," etc. His service agreement regulated the making of these collections to some extent. On appeal against an assessment under Schedule E in respect of the proceeds of collections received during the 1951 season, the General Commissioners found that the sums in question were not a profit arising from his employment, but were a testimonial to his personal abilities. The Crown appealed.

Decision.—Held, that the Commissioners' decision was correct.

The Student's Tax Columns

DEDUCTION OF TAX FROM DIVIDENDS

THE POSITION IN REGARD TO DEDUCTION OF INCOME TAX FROM dividends paid by a company is entirely different from that in regard to deduction from annual payments, described in our issues of March (page 109) and May (pages 190-1).

A company resident in the United Kingdom pays tax on the whole of its income in the usual way. Then when it pays a dividend to the members it is entitled to deduct from the dividend (and to keep) income tax at the standard rate, provided the dividend is paid out of profits or gains of the company (*a*) which have been charged to tax, or (*b*) which would fall to be included in computing the company's liability to tax for any year if the profits had to be charged on the actual income of the year instead of on some other basis. It seems that for the purpose of (*b*) above, capital allowances are not to be deducted.

The following situation can therefore arise:

A company started business on May 1, 1951, and made up accounts to April 30 each year, showing profits of: 1952 £600; 1953 £2,000; 1954 £5,000.

The assessments were:

	Profits	*Capital Allowances*	*Net*
	£	£	£
1951-52	558	120	438
1952-53	600	180	420
1953-54	600	150	450
1954-55	2,000	190	1,810

The company paid the following dividends on June 30 each year: for the years to April 30, 1952, £200; to April 30, 1953, £1,800; to April 30, 1954, £4,000.

Since all the profits would be charged to tax if an actual year basis were adopted, the company is in this position:

Due Date January 1	*Tax Paid*	*Date June 30*	*Tax deducted from members*
1952	£438 at 9/6 = £208 1s.	1952	£200 at 9/6 = £95
1953	£420 at 9/6 = £199 10s.	1953	£1,800 at 9/- = £810
1954	£450 at 9/- = £202 10s.	1954	£4,000 at 9/- = £1,800
1955	£1,810 at 9/- = £814 10s.		

It is, of course, unlikely that a company would distribute profits so lavishly, but it is possible. There is no question of the company ever having to account to the Inland Revenue for tax deducted from dividends.

If the company does not deduct income tax from a dividend, it is deemed to have paid such a gross sum as after deduction of income tax at the standard rate would leave the actual sum paid. So, with income tax at 9s. in the £, a "free of tax" dividend of £55 would be regarded as a dividend of £100 less income tax of £45.

A dividend out of capital profits is not a revenue payment at all, so the question of income tax deduction does not arise; such a dividend is not income in the hands of the shareholder. (If the company is a foreign one, however, such a dividend is taxable on the shareholder under Case V (*C.I.R.* v. *Reid's Trustees* (1949 A.C. 361)). All dividends from abroad are taxed under Case V, unless they are paid through an agent in the United Kingdom, in which event the agent must deduct tax and pay it over to the Inland Revenue.

If a company deducts less than the full rate of tax, the net amount paid is grossed up by reference to the true rate, e.g. from a dividend of £80, a company deducted £25, leaving a net payment of £55. With tax at 9s. in the £, this is £100 gross.

The company must send out with each dividend a voucher showing the gross amount, tax deducted or deemed to be deducted, and the net amount paid. The full standard rate is deductible even where the company has had double taxation relief, but in that event there must be stated the net United Kingdom rate applicable. This is necessary because the company is really deducting foreign tax as well as United Kingdom tax and the British Treasury will not repay to a member of the company the foreign tax deducted.

The Month in the City

Rise and Relapse

A MONTH AGO THERE HAD ALREADY BEEN some recession in the Funds from the peak immediately following the cut in Bank Rate. By the middle of June their prices were in general appreciably below their level of before the cut, but the prices of other fixed interest securites were generally still well above it. Probably this meant only that the speculative movement which had discounted the fall in rate in the Funds had not much affected the rest of the fixed interest section. The only markets to remain strong until the Whitsun holiday were those in equities, and industrial Ordinary shares in particular were bid up until the index of the *Financial Times* reached a new high of 152·6, a rise of 6·4 points on the month. This was, however, followed by an even more rapid decline—a decline which was attributed to the break on Wall Street but was perhaps little more than a natural reaction after so rapid a rise. A few days later the improvement in Kaffirs was reversed by the publication of the mid-year dividends, for they seemed disappointing, particularly for companies whose possible uranium profits had been the subject of rather extreme speculation. In the changed atmosphere, exceptionally good results of *Courtaulds*, including a rise in the dividend by a point more than had been suggested at the time of the free scrip issue, failed to have much effect until, towards the end of the month, there was a pronounced improvement. The net result, as reflected in the indices of the *Financial Times*, were changes as follows between May 20 and June 21: from 103·09 to 102·94 for Government securities; from 115·04 to 114·85 for fixed interest; from 150·4 to 153·7 for industrial equities; and 87·14 to 87·56 for gold mines.

Government Conversion

As was generally expected, the authorities did not delay long in taking advantage of the reduction in Bank Rate to effect a new attack on the short-term debt. At the end of May there was announced an immediate offer for cash of £300 million 2 per cent. Conversion stock 1958-59, with a maximum life of just under five years, accompanied by an offer to holders of 3 per cent. National Defence loan, 1954-58, to convert into the new issue. Any of this stock not converted will be paid off on September 2. Those accepting conversion receive an equal amount of the new issue together with 13s. per cent. on July 15. So far as the cash issue is concerned the terms seemed about right and in the event applications in excess of £5 million were cut to about 68 per cent. It is impossible to say how much of the money came from "inside," but it is believed that other applications were very substantial. Holders of over 90 per cent. of the issue accepted. The conversion offer, and still more the determination to repay any stock not converted in three months' time, seems to have come as a surprise to the discount market, which is believed to have bought the maturing bonds fairly heavily. It caused some fairly sharp adjustments in the Funds, particularly in the shorts, where the very short dates have now fallen since before the cut in Bank Rate but the longer dated have improved. This, however, was not the end of the matter, for the disappearance in the near future of some bonds with a really short life has accentuated the desire of the discount houses to replenish their bill portfolios. In view of the very large outside applications the price was stepped up by fourpence on June 4 and by half as much in each of the next two weeks, so that the cost of bills to the Exchequer, which was £2 0s. 10·84d. before the rate cut and £1 14s. 1·75d. after it, is now down to £1 11s. 7·57d. per cent.

Rise in Dollar Reserve

Meanwhile, for the second month in succession, May had brought an exceptional addition to the gold and dollar reserve. The total addition was, with three exceptions, the largest recorded and of those exceptions two were produced by heavy U.S. aid. On this occasion the amount "earned" cutside the E.P.U. was $120 million or a trifle more than in April, but on both these occasions exceptional factors were operating, in the sense that probably three-quarters of these earned figures were due to exceptional transfers of foreign currencies. The official view is that these transfers are mainly a reflection of the improved status of sterling and the greater freedom of London markets but that semi-speculative factors caused transfers, which might reasonably have been spread over four or five months, to arrive in a matter of days around end April to early May. In consequence it would be unwise to expect such large additions in future. Indeed we would seem to be faced with some prospect of the surplus shrinking to very modest proportions, since the period of maximum seasonal demand for sterling area commodities is now past and the height of the tourist season is approaching. Of the modest real earnings of dollars some part seems to be due to the efforts of this country.

Stewarts and Lloyds Sale

Towards the end of May the long awaited announcement as to the next offer of steel shares to the public materialised. As had been very generally expected this proved to be the ordinary capital of *Stewarts and Lloyds*, certainly the most popular of the whole list. But this announcement was made 23 days in advance of the actual issue and, within a matter of days, the issue price was reported accurately to be 35s. Admitted that an offer of £10 million of ordinary capital at a very substantial premium is a major operation even in these days; admitted that if rumours are to get about they ought to be forestalled by an official statement, it nevertheless seems that such lengthy preparations are most undesirable. It also seems highly probable that the Agency and the issuing consortium have again missed the market. That they should do so on this occasion is a matter of the gravest regret, for there can be little doubt that this issue offered the best hope of putting the sale of steel shares to the investing public on a more reasonable footing.

Rolls-Royce Finance

Among the more interesting of the demands for new capital by industry is the issue of £4 million 4 per cent. debentures by *Rolls-Royce* at 99. The debentures are repayable 1974-84. The money is required for the general development of the group's business and the latest accounts show that, in exports alone, this expanded to over £11 million, a new high in the group's history. The yield of the new debentures is covered three and a half times and the interest 13 times; with a gross redemption yield of over 4 per cent. applications were six times the amount offered.

The offices of the Transport Arbitration Tribunal have been moved to Watergate House, 15 York Buildings, Adelphi, London, W.C.2. The telephone number is TRAfalgar 6231.

Points From Published Accounts

Pause for Reflection

ON A CONSERVATIVE ESTIMATE THE WRITER examines in detail the reports and accounts of 1,000 public companies every year—twice the number which were submitted for the award recently made by *The Accountant*. Points that cause particular annoyance to one student of published reports and accounts no doubt also cause general annoyance to the community, consisting mainly of shareholders, who are recipients of them, and it is worth while, therefore, to sit back and quietly reflect on some of these criticisms.

Firstly, there is the company whose chairman leaves his review for the annual meeting and considers that he and his colleagues have done their duty by compiling, to accompany the accounts, a directors' report which is merely a paraphrase of parts of the profit and loss account. That has happened although the concern's profits have fallen through the floor. It is no duty of the auditors to decide what the directors shall or shall not put in their report, but accountants on the Boards of public companies, or employed by those companies, should surely use their influence to see that the accounts are properly interpreted when they are sent out to shareholders, that the story behind the profits experience is divulged at that time, and that shareholders should not have to wait until the annual meeting for explanations. The results, after all, are as unalterable as the fact that a fraction of one per cent. of shareholders go to company meetings.

Then, secondly, there is the company which has no ideas of layout. One imagines that the compilers of its accounts have no appreciation of such a simple point as the difference between single- and double-space typewriting, still less of the many typefaces used each month in a journal such as ACCOUNTANCY. With such an important, regular and public affair as a report for the shareholders some compilers show a disregard, or lack of pride, which suggests that their publicity and advertising literature must be very poor indeed. When *The Accountant* announced its competition we made seven suggestions to entrants in our December, 1953, issue (page 401): these included consultation with a good printer. While there remain many offenders, it is gratifying to find that there has recently been some improvement. Indeed, our firm impression is that more and more companies are paying attention to layout and choice of typefaces.

The third grumble is caused by the frequent retreat from a categorical statement of trading profits and net profits. Often the trading profits are shown after deducting a string of debits and adding a string of credits, and without sub-totalling either. The apparent aim is simplification of layout, but for the reader who wishes to make an intelligent appraisal of the trading results, and to compare them with the outcomes shown by the same company in other years or by other companies in the same year, it is irritating in the extreme. It also imposes on shareholders the unnecessary mental labour of thinking in reverse. Instead of saying to themselves: "The trading profit is *x*, but because of B, C and D the net profit is *y*," they have to invert their thinking and make unnecessary calculations to work from net profit—or, even worse, from net profit adjusted for a number of items—in order to reach the trading profit, which they can compare from year to year or from company to company.

Fourthly, the benighted practice of bringing exceptional items into reckoning before striking the net profit, and, by calling it a "balance," acknowledging that this is a hybrid figure. A company could conceivably show a "net profit" arising entirely through: (*a*) purchase for redemption of debenture stock at a discount; (*b*) lavish expenditure on deferred repairs; (3) repayment of Excess Profits Levy; (*d*) sales of capital assets at a big surplus over book value. Since the Companies Act does not define "net profit," and since so many companies bring to credit or debit items of this kind in arriving at a "balance available for appropriation," it would appear to follow that some accountants would be prepared to certify a set of accounts even though the "balance" consists solely of one or all of the five items listed. If they did so, they would be nominally correct but would their action be professionally desirable? And if it would not be so, is it justified for *any* of the items listed, or *any* similar item, to be brought into credit or debit before striking the net profit?

The general public is very far from being as aware as the accountant of the limitations of accounts as a means of expression. The printed phrase has a hypnotic authoritative quality, and in our modern folklore is generally accepted without question, like customs and conventions. Shareholders, by and large, look upon net profit as the amount which is available for the company to distribute to them. If that is a wholly fallacious approach then it should be within the compass of the accounts to show why it is so.

We have perhaps strayed a long way in arriving at the fundamental point that the majority of persons for whom public company accounts are compiled want to know two main things; (1) the trading profit before depreciation, directors' emoluments, interest, and so on, and (2) the net profit before taking into account exceptional items that arise through an accident of time. Is it desirable that an investor should have to reason: "Had it not been for buying debentures at a discount, selling fixed assets at a profit, making big deferred repairs, crediting an E.P.L. repayment, and claiming big initial allowances, the net profit would have been £x and not £y, the figure given in the accounts?" or is it preferable that he should be able to reason: "The net profit is £x, but because of buying debentures at a discount, selling fixed assets at a profit, making big deferred repairs, crediting an E.P.L. repayment, and claiming big initial allowances, the balance in the accounts is £y"?

J. and P. Coats

As probably the largest yarn manufacturing undertaking in the United Kingdom, *J. and P. Coats* has had considerable ups and downs since sterling devaluation in 1949. With the 1951 report shareholders were told:

> In comparing the 1951 group profit before United Kingdom taxation of £12,033,180 with £12,779,717 in the previous year, it will be remembered that exchange gains following devaluation of sterling inflated the latter figure by £2,800,000. With allowance for this exceptional figure, it will be noticed that the trading profit of 1951 was some £2 million more than 1950.

Then a year later the directors' report indicated that:

> The heavy fall in the price of Egyptian cotton and other raw materials has involved a write down in stocks of £5,652,289 and has adversely affected the results of the year.

And there was a warning:

> Since December 31, 1952, there has been a depreciation in the rates of exchange in certain countries and if these depreciated rates apply at the end of 1953 the group will suffer an exchange loss to the order of £3·4 million on the conversion of certain foreign assets.

Now the 1953 report contains the following:

> The exchange loss foreseen in last year's directors' report amounted to £4·2 million and has been charged against the 1953 group profit. The group profit for the year before taxation £4,503,241 shows as against 1952 a reduction of £100,000. It should be borne in mind that the 1952 profit was after a write-down on stock of £5,650,000 and the 1953 profit was after exceptional exchange losses of £4·2 million. If these amounts are added back, the reduction in group profit is £1,550,000.

There was no obligation on the company to give any of this information, and it is therefore to be commended for having done so. From the accounting angle the interesting feature is that:

> In order to show more clearly the profit which is available to stockholders of J. and P. Coats, Ltd., it has been decided to revert to the practice of showing, in addition to the group profit and loss account, a separate account for J. and P. Coats, Ltd.

However, this reversion is only moderately useful, as the J. and P. Coats trading profit is lumped with gross dividends from subsidiaries and sundry income. The segregation of these items and the further subdivision of subsidiaries' dividends into home and overseas would have been useful, as is the practice of some companies of segregating their South American assets and earnings from the other interests. The parent's net profit, incidentally, includes a large sum resulting from the sale of investments.

Publications

STOCK MARKET ECONOMICS. By M. S. Rix. Pp. 284. (*Sir Isaac Pitman & Sons, Ltd. Price 25s. net.*)

The reviewer recently had the pleasure of showing the London Stock Exchange to three French economists. The customs of the "House," its history and its organisation were easy enough to outline, but to explain the role the exchange played in the economy and to elucidate the economic forces which influenced it was far more difficult. A "blue-button" or the cry "fourteen-hundred" is easily defined, but to expatiate on the forces which shape the course of stock market prices is a task to daunt even the most loquacious. Fortunately, in following her text-book on *Investment Arithmetic* with another on *Stock Market Economics*, Miss Margaret Rix has performed the task for us.

In her present book, as in her first, Miss Rix divides her chapters into sub-sections, thus helping the student, who has the interrelated topics neatly set out for him. But to at least one non-student reader the method seems to destroy the unity of the book, which just stopped: it did not end. Maybe, however, that this is a fault of the subject itself; stock market prices and the undertow of forces which shape them hardly fit into a rigid and watertight analysis. Apart from an occasional blemish in the argument, this is the only serious criticism that can be made.

Fluently and with sound common sense, Miss Rix deals with the many economic facets touching on investment. Not all readers will agree with her opinions on, for instance, speculation; but all will be stimulated by them. She describes the workings of the Stock Exchange—and the principles and facts of investment which lie behind it—in terms of their economic function. As she admits, some of her material is not new, she wished to make the book self-contained; but some of her theoretical discussions have not found their place before in a book on the stock markets.

Her approach to the problem is to divide the book into three parts. First, there is a discussion of the functions and organisation of the London Stock Exchange and the role that investors play in the economy. This is followed by a largely descriptive section on the securities themselves, with an interesting but diversionary discussion of the analysis of company accounts. Lastly, the most important section of the book, on the principles of investment. In this section after analysing the decisions made by an individual investor, the spreading of risks, speculation and bonus issues (a chapter that every member of the T.U.C. could read with profit), Miss Rix concludes with four chapters on the economics of stock market prices. Hence, within this book almost every topic of discussion concerning the exchange is treated in turn.

This reviewer felt that not only could his three French economists benefit from it but also that the book might be sold with profit to those entering the door to the public gallery in Throgmorton Street. At least some of the mental confusion of the observer in that "aquarium" would then be cleared away, leaving the "waiters" to explain the technicalities and the traditions. G. L.

AN EXECUTOR'S ACCOUNTS. By E. Miles Taylor, F.C.A., F.S.A.A., S. C. Hough, A.I.B. and O. Griffiths, M.A., LL.B., Barrister-at-Law. 11th edition revised by S. C. Hough, A.I.B. Pp. vii + 498. (*Textbooks, Ltd., London. Price 25s. net.*)

If this, the eleventh edition of a well-known students' book, had been confined to matters strictly within the title, it could be commended as a very competent piece of work. Subject to one or two minor points, the chapters dealing with death duties and the preparation of accounts are excellent.

Unfortunately there is no prefatorial or other intimation about the date up to which decisions in the Courts have been noted. Even if the report in the *Holt* case on the valuation of shares in a private company appeared after the book had gone to press, one expects some reference to the decision in *Longbourne's Marriage Settlement*, (1952, 2 T.L.R. 818), a case where the "slice" principle was held inapplicable.

On the assumption that the book is intended for accountancy students, too much attention has been paid to the purely legal aspect of the subject. Some understanding of the law of real and personal property is admittedly necessary when studying death duties, but the proper place for the student to obtain this is from one or other of the well-known introductions to English law. Chapter I of the book under review attempts, somewhat imperfectly, to give the student this understanding. (On page 11 it is stated that gifts to charities are outside the rule against perpetuities, whereas the statement should be that charitable trusts, provided that they are to commence within the time allowed by the rule against perpetuities, are valid though their objects are perpetual (Maitland's *Equity*).

In Chapter IV (Powers of Personal Representatives) there appears a note on appropriation, setting out the provisions of Section 41 of the Administration of Estates Act, 1925. It is doubtful whether at this stage of the book the note can convey much to the student and it would be better relegated to page 412 (on appropriation in specie).

The statement on page 88 regarding the right of widows and dependants to enforce benefits conferred on them under a partnership deed is questionable. There may be rare cases where they could prove a trust in their favour, but no trust was found in *In re Miller's Agreement* (1947, Ch. 615), and the Crown's claim to estate duty under Section 2(1)(d) failed.

The decision of the House of Lords in *Sneddon* v. *Lord Advocate* (1954, 2 W.L.R. 211) was clearly too late for inclusion in this edition, but unfortunately it makes out of date the law as stated on page 112 regarding the basis of valuation of gifts *inter vivos* and reference must now be made to the notice recently issued by the Board of Inland Revenue (see ACCOUNTANCY for April, 1954, page 143). Incidentally, under gifts *inter vivos* some reference should be made to the decision in *A.G.* v. *Oldham*, (1940, 1 K.B. 599) concerning bonus shares issued to the donee of a gift *inter vivos*.

The example on page 174 omits to deal with the accrued interest on the settled fund investment. This interest forms part of the free estate and should be deducted from the value of the settled fund.

The conclusion drawn from Section 33(5) of the Administration of Estates Act, 1925, that equitable apportionment is not required where, under an intestacy, residue is held on trust for conversion should be qualified. Some authorities do not agree with this as an absolute rule.

Finally, clause 13 of the Specimen Will (Appendix C) would appear to be void as contrary to public policy (See *In re Wynn*, 1952, 1 T.L.R. 278).

Enough of criticism. If the treatment of the law were shortened and revisions made to meet the specific points here noted, the book would be first class. It has an attractive format, a table of cases with references to the reports and, so far as tests go, an index that is reliable.

TOTAL TO DATE. THE EVOLUTION OF THE ADDING MACHINE. THE STORY OF BURROUGHS. By Bryan Morgan. Pp. 65. (*Burroughs Adding Machine Ltd., London. No price quoted.*)

This book describes the evolution of the modern adding and book-keeping machines from the simple devices used in the past and, in particular, relates the story of the foundation and progress of the *Burroughs Company*.

Burroughs, a bank clerk of but elementary education, was obviously a visionary. Inventors before him had produced machines that would add, but never a computer that was at all reliable and accurate. "Accuracy," said Burroughs, "is only truth filed to a sharp point." After many disappointments, he produced a pilot machine in 1884: by 1891, machines were in production which passed every conceivable test. Manufacturing began in the United Kingdom factory —a converted warehouse—in 1898, but at the rate of only 60 machines a year. In comparison, the new factory built by the company at Strathleven after the last war has a present annual production rate of 25,000 machines.

The original adding machine has evolved into a complex machine of engineering ingenuity and it is interesting to read that simply to assemble a present typewriter accounting machine requires 70 men.

Just as Luca Pacioli's historical treatise on double entry in the fifteenth century transposed accounting and book-keeping into an accurate science, it can truly be said that adding machines and their developments have transformed our ideas of the volume of book-keeping that can be effectively and economically controlled by a business entity. But the story in the book is by no means finished. The last few pages of it bring in that mysterious and rather romantic word "electronic," the main feature of which is that figures will be computed more by pulses of electricity than by mechanical movements. However, even these electronic hearts are merely ticking over in order to keep pace with mechanical input and output. Although machines exist which can compute the pay-roll at a rate of nearly 2,000 pay slips an hour, the problem remains that whilst machines can calculate and work at a rate almost beyond human comprehension, they still have to be supplied by human means with their operating media.

This book describes fascinating and indeed historic events in the world of accounting and it is more than appropriate that it should have been prepared to commemorate the highest honour and recognition available to the accounting machine industry, namely, a visit from Her Majesty the Queen, which took place at the Strathleven factory in April, 1953. J. D. N.

ACCOUNTS FOR MANAGEMENT. Pp. 83. (*British Institute of Management, 21 Tothill Street, London, S.W.1. Price 5s. net.*)

This further booklet in the financial management series of the British Institute of Management is addressed to managers of small and medium-sized firms. The author is Clive de Paula, A.C.A., who was assisted by a number of other members of the British Institute.

A large number of these smaller organisations, which in total comprise over 90 per cent. of our manufacturing units, are less successful than they ought to be, the booklet avers, and the annual wastage through failures is shameful, particularly as many of them could be obviated by better financial management.

Forecasting, which may be essential to the survival of a business, is an intelligent attempt to plot in advance the course which it is desired to follow. Without forecasting, the business merely drifts and management gambles on fortune continuing to bring in profits. The word management implies a capacity to manage or direct the affairs of the business: a manager must provide his business with direction on the types of products, the number of workers in the factory, the wages policy, the machines and facilities, when and how materials are to be provided and future development. This kind of direction has a direct bearing on the profitability of the business. Forecasting will enable the manager to foresee many of the difficulties that lie ahead and to formulate plans to surmount them. The first step in obtaining control over the business is to forecast or decide how and where the business is going. The next step is to control its activities so that the desired objectives are reached. This can be achieved by budgetary control and standard costing, which have proved so successful in the larger organisations. Often simplified budgetary control can be introduced without any increase in staff. Sometimes a modest increase will be necessary, but the cost will be amply repaid by the additional profit from enhanced efficiency.

The main purpose of budgetary control and standard costing is to establish yardsticks against which to measure costs and facilitate control. By measuring actual costs against standard, by throwing up variances, by examining these carefully and by taking corrective action, control over costs can be obtained. The results achieved by each foreman can be frequently compared with a set target and will enable the manager to judge performances and pinpoint the weak points. The way in which budgets are drawn up enables the manager to delegate authority and yet retain control. He can focus his attention on those items which have varied from budget and can thus apply the principle of management by exception.

Intelligently used, monthly operating statements can remove much of business uncertainty and enable the manager to concentrate his energy on the danger spots of the business. Reports, which should be simple, readable and up-to-date, must be intended to guide policy and action.

Any manager who puts into practice the ideas that are advocated in this booklet can turn his accounting system into a valuable asset in his business, and accountants in smaller organisations would do a great service by bringing these ideas to the attention of management. H. K.

BACK DUTY MANUAL. By A. J. Roper Pp. 130. (*Butterworth & Co. (Publishers), Ltd. Price 25s. net.*)

STAPLES ON BACK DUTY. By Ronald Staples and Percy F. Hughes. Sixth edition. Pp. 178. (*Gee & Co. (Publishers), Ltd. Price 21s. net.*)

On reading these two books one's first reaction—a somewhat regretful one—is that a really full and satisfactory work on the difficult subject of back duty work has yet to be written. Under the spell of this reaction the temptation is to say that Roper's book is not a manual and Staples is most certainly *Staples* on back duty if nothing else. On reflection, however, it is clear that to say this would be most unfair to both authors. Back duty work is exacting and requires in the practitioner qualities which should perhaps include, at the least, those of a detective, a diplomat, a negotiator

and an advocate. A tall order, may be,—and clearly these qualities cannot be taught by means of the written word alone. Even when the qualities are present, experience is essential, and experience of as wide a nature as possible. Here lies the rub, since the field is a limited one, in spite of the much publicised estimates of the wide extent of tax evasion. Second thoughts thus lead one to the conclusion that there is no short answer to the practising accountant's problems and a complete manual which will solve all those problems will never be written.

Both authors have actually had extensive experience, though Roper's at the time of writing his book must have been almost entirely on the Revenue side of the fence. Perhaps this is the key to the contrast between the two works. Staples' book is a new edition of one already well known and is based on many years' experience, both inside and outside the Inland Revenue Department. Hence he stresses the importance of the psychological aspect, the human side; and the erring taxpayer is to him a human being with understandable weaknesses. Roper's is a new book written shortly after leaving the Revenue and it is perhaps significant that throughout he writes about " cases," not problems of a human society.

It is this underlying contrast which would appear to give rise to another. Roper is clear, concise and purposeful. He devotes a large part of his work to comprehensive examples, admirably set out, which give a very good idea of the machinery of an investigation, with here and there excellent examples of the sort of " points " to watch for in practice, thrown in for good measure. Staples on the other hand, rightly concerned as he is with the infinite variables of human nature and human failings, is less concerned with the pure " machinery " side of tax investigation work, and not unnaturally he is somewhat less clear, and is inclined to stray from the subject matter of his chapter headings. One curious result of this is that Roper's handbook of 124 pages (without the specially printed examples at the end) is much easier to read than Staples' work of 156 pages (without appendices).

Both authors deal with the statutory penalty powers of the Revenue as fully as need be, and both refer to the few cases decided in the Courts on tax evasion matters. Staples, in fact, does sometimes quote from such cases rather more extensively than is strictly relevant, and thus on occasions tends to magnify the importance of a Court decision on a comparatively minor matter.

In both works, too, the utmost importance of a full disclosure to the Revenue by a defaulting taxpayer is given pre-eminence, though Roper adds a very definite qualification. His view is that full disclosure of the extent of the evasion in money terms is sufficient, and that having achieved this the investigating accountant then becomes an advocate pleading his client's cause, and taking infinite pains *not* to disclose incriminating evidence, This attitude of his flows largely from the considerable strengthening of the Revenue's hand on the matter of evidence in the Finance Act of 1942, and it has some logic behind it. It means that, in his view, an accountant puts in the figures only, taking great care neither to disclose the methods of evasion used, nor to give the Revenue officials access to incriminating evidence such as false invoices. At least this rather refreshing line of his should cause the accountancy profession to take fresh stock of its position in this matter—though it is too much to hope that such stocktaking will produce a unanimous opinion!

J. W. W.

PRACTICAL FINANCIAL STATEMENT ANALYSIS. By Roy A. Foulke. Third edition. Pp. xxi + 710. (*McGraw Hill Book Co. Ltd., New York and London. Price £4 net.*)

" It is the unusual annual report to stockholders," says Mr. Foulke, "that contains sufficient information for a comprehensive financial analysis." In spite of the efforts recently made to present accounts intended for publication in a form readily intelligible to the reader, this remark is true not only of American but also of British practice.

The value of this book is that it is written against a background, in the words of the dust cover, of " the author's actual experience in analysing thousands of financial statements over a period of some thirty years," and he emphasises continually the difficulty of making sense of them without additional information.

The layout of the book is methodical. A short history of financial statements in America is followed by a chapter on the contents and limitations of the individual balance sheet items. The balance sheet is then analysed by examining the ratios that items or groups bear to one another or to the turnover or profit figures. The author discusses the significance of the ratios, both by taking one year by itself, and by considering the trend from one year to the next. He overcomes the difficulty which is usually encountered in providing criteria against which the ratios of one year alone can be judged, by including, as an important part of his analysis, references to typical ratios which have been observed in a variety of industries during a period of five years. (For those who already know the two previous editions of this book, these statistics now cover the period ending with 1951.) Any divergence from these ratios may indicate an unhealthy development in a firm's financial structure. Without these statistics, which are conveniently summarised in schedules at the end of each chapter, the book would be much the poorer; yet the validity with which a ratio found in one business can be used as a criterion for another is questionable, unless one makes considerable qualifications about the way in which it has been derived, differences of accounting terminology, size and structure of the typical firm, the sample taken, and so on.

There is an almost extravagant use of diverting illustrations, of the problem and answer type, of each ratio discussed. In addition, each chapter is followed by problems for students themselves to solve. Further sections deal with statements of sources and dispositions of funds, and break-even charts; the book ends with a useful summary of the development of accounting principles and practice in the U.S.A. The discussion of the profit and loss account appears to have been treated unduly laconically—perhaps because of the author's belief that the business man already knows and uses this account thoroughly.

Apart from the entertainment it provides, the book should prove of considerable value to those whose accounting experience is limited to the production rather than the interpretation of accounts.

J. H.

REGISTER OF INTERNATIONAL RESEARCH IN ACCOUNTING. Pp. vii + 68. (*Published for the Incorporated Accountants' Research Committee by Geoffrey Cumberlege at the Oxford University Press. Price 7s. 6d. net.*)

There can be few things more discouraging than to spend many months in following a particular line of research only to find, when one's work is completed or near completed, that somebody else has been first in the field. For this reason all interested in research in accounting should welcome this admirable little handbook prepared for the Incorporated Accountants' Research Committee by Mr. J. D. Nightingirl, Mr. A. A. Garrett and Mr. T. W. South. Not only can it help to avoid wasteful duplication, but those interested in different but related branches of the same subject may be brought into contact with one another, with beneficial results to themselves and to the profession as a whole. The work aims at setting out in a convenient form particulars of the bodies both at home and abroad which sponsor research into accounting problems, together with short synopses of the projects and the names and particulars of perons who are engaged in this work and to whom inquiries may be addressed.

Section I of the book is a subject index. Section II (the principal section) gives

details of the research being carried out under the general headings of the sponsoring organisations, while Section III gives an alphabetical list of the bodies concerned in the inquiries.

The most serious criticism that can be levelled against the Register is one which is fully appreciated by its compilers—namely, that it is not yet complete. One hopes that in the future editions this defect will be remedied, but in so far as it may result from apathy on the part of the recipients of questionnaires, the compilers will no doubt be in some difficulty outside this country, though within it personal interviewing may be the solution.

An admirable feature of the publication is its truly international character, and it is encouraging to observe the great interest in topics of importance to the profession that exists both in Western Europe and further overseas.

One can have nothing but praise for the arrangement of the Register. The sections are extremely well set out and the whole book is easy of reference. A point that might be considered in future editions is whether in Sections I and III it would not be possible to give page references to Section II, which is the principal part of the Register. Again, while some of the projects are reasonably fully described in Section II, there are others in which a little amplification would be most helpful. But obviously the Editors have here been at the mercy of the people answering the questionnaires.

B. B. MC. C.

INCOME TAX AND PROFITS TAX IN A NUTSHELL. By the "B.C.A." Tutors. Pp. xii + 212. (*Textbooks Ltd., London. Price 15s. net.*)

This book is a new edition of one first published in 1952. It is now revised and brought up-to-date, following the Finance Act, 1953. There are twenty-one sections, with numerous sub-sections, and among the subjects helpfully treated in separate sections are losses; management expenses claims; assessments of husband and wife; time limits for claiming repayment; and relief in respect of error or mistake and appeals. There are also sections on double taxation relief and profits tax and a new section on non-residents and reliefs. The section on excess profits levy, which usefully outlines the principal statutory provisions, has been retained, since it will doubtless be some time before all liabilities under this defunct tax have been settled.

Although in a book of this kind condensation is inevitable and conciseness indeed a virtue, there are two matters which could with advantage be dealt with somewhat more extensively. These are grouping for profits tax, which is rather cursorily treated with a reference to the loss of separate abatement, and the topical matter of subvention payments between associated companies.

Commendable features continued in this edition are the use of bold type for the sub-section headings and much use of capitals and italics within each sub-section, a treatment which facilitates both reference and study. Blank pages for notes are again provided at the end of each section and the text is accompanied by over 60 examples.

As the title implies, the volume represents an effort to compress a complex subject within reasonable compass and in readable manner. This is admirably done and the result is a well-designed text-book that provides a useful guide for lecturers and a helpful exposition for students.

R. A. F.

FUNDAMENTAL PRINCIPLES OF ACCOUNTING. By Professor C. A. Moyer, C.P.A., PH.D., and Professor Hiram T. Scovill, A.B., C.P.A., LL.D. Pp. xv + 631. (*John Wiley & Sons, New York; Chapman & Hall, London. Price £2 8s. net.*)

This book, which is from the pens of two able and experienced teachers of accountancy, deals with the principles underlying the theory and practice of accounting. It is designed as a first-year text.

Experienced teachers know that the best training in accountancy begins with a sound foundation of fundamentals, and proceeds by way of practical illustrations and an abundance of problems towards complete understanding. Thus the beginner is best served by texts which confine their attention to basic topics, illustrations of those topics, and graded problems for the student's solution. Laudably, the first 14 chapters of this book are exclusively devoted to elementary bookkeeping and accounts.

The chosen starting point is a demonstration of the effects of transactions on the balance sheet equation. Such an introduction excites the reader's immediate interest, but sometimes it can be dangerous. It certainly produces an appreciation of the aggregate and ultimate effect of business transactions on the finances of the accounting entity. But there is the danger that it may veil the basic stages of accounting investigation—the collection of data, its tabulation and summarisation—and may leave the student in ignorance of the procedures generally employed in these three stages, in ignorance, that is, of the routines and techniques of accountancy. However, Professors Moyer and Scovill skilfully avoid this pitfall. They go on to an elaboration of the generally accepted methods of collection, tabulation and summarisation of financial data by means of documents and books of original entry, ledger accounts and the trial balance, and then lead the reader back to the balance sheet and profit and loss account with which he started.

There are questions and problems at the end of each chapter and, at suitable intervals, revision problems. These will be more valuable when the authors publish the solutions to the problems, for the student can then check as he goes.

Three chapters, dealing with the analysis of financial data, branch accounts and departmental accounts, cover the elementary stages of the analytical and interpretative side of accountancy.

Nothing advanced has been regarded as elementary enough to be included and no detail has been regarded as too elementary for inclusion. Such matters as finding the difference in a trial balance, the proper use of working papers, bank reconciliations, forms of invoices, credit notes, sales tickets, all are dealt with in their proper place in one of the most thoroughgoing and enjoyable texts the reviewer has ever read.

R. A.

BOOKS RECEIVED

PAYNE'S CARRIAGE OF GOODS BY SEA. Sixth Edition by J. Milnes Holden, LL.B., PH.D., A.I.B., Barrister-at-Law. Pp. xxvi + 194. (*Butterworth & Co. (Publishers), Ltd. Price 21s. net.*)

HOUSING STATISTICS 1952-53. Pp. 81. (*Institute of Municipal Treasurers, 1 Buckingham Place, London, S.W.1. Price 7s. 6d., post free.*)

CITY OF LEEDS. Abstract of Accountants. 1952-53. Estimates 1954-55. (*City Treasurer, Civic Hall, Leeds, 1.*)

RETURN OF FIRE SERVICES STATISTICS, 1952-53. Pp. 15. (*Society of County Treasurers, 20 Vauxhall Bridge Road, London, S.W.1 and Institute of Municipal Treasurers and Accountants, 1 Buckingham Place, London, S.W.1. Price 3s., post free.*)

EDUCATION STATISTICS, 1952-53. Pp. 23. (*Society of County Treasurers and Institute of Municipal Treasurers and Accountants, London. Price 3s., post free.*)

RETURN OF POLICE FORCE STATISTICS, 1952-53. Pp. 15. (*Society of County Treasurers, and Institute of Municipal Treasurers and Accountants, London. Price 3s., post free.*)

Readers' Points and Queries

Balancing Charge on Change in Partnership

Reader's Query.—A partnership consists of four partners until November, 1953, when one dies and the remaining three carry on the partnership. A tractor formed part of the assets and was valued for estate duty purposes at £200, whereas the written-down value for income tax was £90. Is the difference of £110 subject to a balancing charge? If so, what is the opening figure for the new partnership?

Reply.—As a result of Section 328, Income Tax Act, 1952; Part 1, paragraph 12 of Schedule 6, Finance Act, 1952; and Section 19, Finance Act, 1953: if the business is treated as "discontinued and new," the tractor is regarded as sold for the market value. That would involve a balancing charge. The new partnership would start with the market value, but would get no initial allowance.

If a claim is made under Section 19, Finance Act, 1953, to continue on the previous year basis, the capital allowance calculations continue as if there were no change in ownership.

No-Par-Value Shares

Reader's Query.—The advocates of no-par-value shares, among whom one sees the name of Professor W. T. Baxter, seem unaware of the fact that their advocacy raises a fundamental and difficult point of which they seem to be unaware, much less to solve.

The principle constituting the basis of no-par-value shares is that the proceeds of the issue, less costs, etc., together with all reserves functioning as capital employed in the concern are gathered into the one capital account. So far so good. But what are the reserves functioning as capital? Are they only reserves labelled as capital reserves? Despite the fact that the 8th Schedule to the Companies Act, 1948, gives a clear definition of what is a capital reserve and what a revenue reserve, the lead given by the Act has not been followed by accountants generally. Those responsible for drafting final accounts of companies proceed on the (incorrect and impractical) basis of classifying reserves according to the circumstances surrounding their creation. For example, if the reserve was raised from revenue resources it is labelled a revenue reserve—this principle disregards the fact that a revenue reserve can as well fill a gap in capital requirements as can, say, an issue of shares. The Companies Act, on the other hand, regards the possibility of distribution of a reserve as the best and therefore of the label it is to bear. If it is a reserve free for distribution (that is at any and all times) through the profit and loss account, it is a revenue reserve. What think the advocates of no-par-value shares? It is vital to their cause that reserves shall be correctly classified, for do not all capital reserves become merged as part of the no-par-value share capital account?

It is a nice problem to be solved—and the answer is to be found in the Companies Act, for those who seek it.

Reply.—Professor W. T. Baxter writes: I should have thought that the doubts surrounding the general problem—of what are "capital" and what are "revenue" reserves—were fairly well recognised. Indeed, I remember touching on this very subject myself in an article published in ACCOUNTANCY *in March, 1951 (pages 91-2). I rather doubt whether any advocate of no-par-value shares would suggest that* all *capital reserves should be bundled into the omnibus capital account. At any rate, the Committee's majority report is guiltless of such proposals. Paragraph 45 uses the phrase "the whole of the proceeds of the issues of shares" to describe what is to be put into capital account. Paragraph 52(3) talks of "a sum equal to the amount of its paid-up share capital (whether Preference or Ordinary) plus all the amounts standing to the credit of the share premium account." To my mind, this delimits clearly and sensibly the extent of the merging; it is confined to the consideration for the shares, that is, what is at present credited to either capital or premium accounts. Capital reserves arising for reasons unconnected with share issues should not be merged, but should retain their identity as at present—though possibly, as the correspondent suggests, with more thought to their labelling.*

Maintenance Claims—Farmhouses

Reader's Query.—We refer to the note on page 220 of the June issue of ACCOUNTANCY.

The procedure recommended in the last paragraph is to charge all farm repairs in the accounts except the disallowed portion regarding the farmhouse, in respect of which a maintenance claim is advised. The note then states that the claim is not restricted to the net annual value of the property, but our experience is that this is true only in the case of farmhouses which are let. In the case of owner-occupied farmhouses we have found that the Revenue generally seeks to restrict the allowance in the maintenance claim to two-thirds of the net annual value of the property and this appears to be in accordance with the provisions of Section 313 of the Income Tax Act, 1952.

Reply.—The procedure recommended in the note in the June issue is correct and is accepted by the Revenue as such. As our reader says, at one time the Revenue were not prepared to accept this interpretation, but representations made to them caused a change in outlook.

There is nothing in Section 313 to restrict the maintenance claim. It only refers to units of assessment used partly for husbandry and partly for other purposes. A farmhouse is used wholly for husbandry although part of the annual value may not be allowed as a deduction in the accounts. Section 101 specifically refers to the owner of any land inclusive of farmhouses and there can be no such restriction as is mentioned in the query.

INSTITUTE OF INTERNAL AUDITORS

THE ANNUAL REPORT OF THE LONDON Chapter of the Institute of Internal Auditors records that eight meetings were held during the year to May 31, 1954. The paper given at one of these meetings by Mr. W. F. Edwards, F.S.A.A., *Internal Auditors—Their Work in Industry and Commerce* was reproduced in the June issue of ACCOUNTANCY, pages 215-16.

A day conference was held in November, and there was a lecture course for members' assistants during the autumn.

It is noted that the Society of Incorporated Accountants is in the process of making a research study on internal auditing.

The membership of the Institute has increased during the year from 49 to 60.

Close association is maintained with the headquarters in New York. Mr. A. L. Watson is Atlantic Regional Vice-President, and Mr. G. E. Hindshaw has been appointed Atlantic Regional Director.

CERTIFIED ACCOUNTANTS' JUBILEE SCHOLARSHIP

THE COUNCIL OF THE ASSOCIATION OF CERTIFIED and Corporate Accountants has made the first award under its Jubilee Scholarship Scheme to Mr. Norman Reginald Tribble, A.A.C.C.A., of Tunbridge Wells.

Mr. Tribble was elected an associate member of the Association in December 1952, and is now employed as Personal Assistant to the Controller of Accounts, Shell-Mex and B.P., Ltd., Shell-Mex House, London, W.C.2.

The scholarship is tenable at the London School of Economics.

Legal Notes

Company Law — Winding-up of Dissolved Foreign Company.

In **Re Azoff-Don Commercial Bank** (1954, 2 W.L.R. 654) is the subject of an article on pages 264/5 of this issue of ACCOUNTANCY.

Company Law—Effect of Order Declaring Dissolution Void.

After a company had gone into voluntary liquidation an originating summons was issued against the liquidator and three persons who were alleged to have made a secret profit from the promotion of the company. The winding-up ran its usual course and on July 10, 1952, the company became dissolved under the provisions of Section 300 of the Companies Act, 1948. The summons was served upon the various respondents between that date and October 5, 1953, when an order was made declaring the dissolution void. The summons then came on for hearing but the registrar held that he could make no order as the summons had abated by reason of the dissolution and had not been revived by the subsequent order declaring the dissolution void.

In **Re Lewis & Smart Ltd.** (1954, 1 W.L.R. 755) Wynn-Parry, J. upheld the registrar's decision. He pointed out the distinction between an order under Section 352 of the 1948 Act and an order under Section 353—a distinction which also existed in earlier Companies Acts and was emphasised by the House of Lords in *Morris* v. *Harris* (1927, A.C. 252). Under Section 353 a dissolution was not preceded by winding-up and might possibly take place without the knowledge of anyone concerned in the company; it was therefore essential that provision should be made for validating acts done after the dissolution. On the other hand Section 352 was confined to cases where the dissolution succeeded the complete winding-up of the company's affairs and could not take effect at all except at the instance or with the knowledge of the liquidator, the company's only executive officer. An order declaring a dissolution under this Section void did not automatically validate acts purporting to have been done previously on behalf of the company; the order merely restored the company to activity from the date of the order.

Contract and Tort—Obligation of Bank to Enemy Customer.

In **Arab Bank Ltd. v. Barclays Bank (Dominion, Colonial & Overseas)** (1954, 2 W.L.R. 1022) the House of Lords affirmed the decision of the Court of Appeal which was noted in ACCOUNTANCY for August, 1953, at page 271.

Contract and Tort—Covenant in Restraint of Trade.

It is well settled that the Court is far more willing to enforce covenants in restraint of trade made between vendor and purchaser than similar covenants made between master and servant. In many types of business the goodwill would be almost unsaleable if it was unlawful for the vendor to enter into an adequate covenant against competition, but even so the covenant must not be unreasonably wide.

In **Ronbar Enterprises Ltd v. Green** (1954, 1 W.L.R. 815) R. and G. were partners in a business which published a weekly newspaper dealing with the sporting and entertainment business. R bought G's share in the business and G agreed that for five years from the purchase he would not "directly or indirectly carry on or be engaged or interested in any business similar to or competing with the business of the partnership." Subsequently a company was formed and published a similar weekly newspaper, for which G started to write featured articles.

The Court of Appeal held, first, that the words in the covenant "carry on or be engaged or interested in any business" were wide enough to include G's employment as a salaried worker as well as his carrying on a business on his own account or in partnership; second, the covenant as it stood was unreasonably wide as it would prevent G from engaging in a similar business in any part of the world, but it was possible to sever the covenant by excluding the words "similar to or" and thus confine it to businesses which competed with the business of the partnership. An interim injunction in this limited form was then made against G.

Executorship Law and Trusts—Limitation on Power of Court to Sanction Alterations.

In **Chapman v. Chapman** (1954, 2 W.L.R. 723), the House of Lords affirmed the decision of the Court of Appeal which was reported as *In re Chapman's Settlement Trusts* (1953, Ch. 218), and noted in ACCOUNTANCY for March, 1953 (page 101). Their Lordships held that the Chancery Division has no inherent jurisdiction in the execution of the trusts of a settlement to sanction on behalf of infant beneficiaries and unborn persons a rearrangement of the trusts of that settlement for no other purpose than to secure an adventitious benefit which might be—and in this case was—that estate duty, payable in a certain event as things now stand, would in consequence of the rearrangement not be payable in respect of the trust funds.

Executorship Law and Trusts—Liability under Administration Bond.

The extent of the liability of sureties to an administration bond has been clarified by **Harwell v. Foster** (1954, 2 W.L.R. 642). H was sole executrix and beneficiary under her father's will. At the time of his death she was an infant and she elected that her husband should be appointed administrator and guardian until she became 21. Her husband took out letters of administration and entered into a bond for the due administration of the estate; two solicitors were sureties to this bond.

The solicitors collected the assets, paid the debts and sent the money representing the balance of the estate to the husband, together with a full account of all the moneys which they had received and the payments made. The husband then disappeared and failed to account to H for some £700 of the money which he had received. H sued the solicitors for this sum as sureties under the bond.

The Lord Chief Justice dismissed her claim. He held that the object of the bond was only to ensure the due winding-up of the estate until the residue was ascertained and in the administrator's hands and that, as soon as the moneys were all received and the debts paid the administration was finished and the position of the husband changed from that of an administrator to that of a trustee. Once this stage was reached the sureties ceased to be liable. To hold otherwise would be to place an intolerable burden upon them, because they were bound to pay the residue over to the administrator and once the money was in his hands they had no control over him.

Wynn-Parry, J., refused to accept any of these three contentions. As to (*a*), the Crown's prerogative had been cut down by the Companies Act, 1948; as to (*b*), he was bound to decide against the Crown on the authority of *Banque des Marchands de Moscou* (*Koupetschesky*) v. *Kindersley* (1951, Ch. 112); as to (*c*), the object of a winding-up order was to ensure distribution

of the assets among the whole body of creditors and no other basis of distribution would be fair. His Lordship therefore made a compulsory winding-up order.

Executorship Law and Trusts—Absolute Gift to Executor.

In **Re Stirling, deceased** (1954, 1 W.L.R. 763), S by his will bequeathed certain sums to his executor, a bank, with the request that it " will dispose of it in accorddance with any memorandum signed by me and I direct that any such memorandum is not to form part of this my will or to have any testamentary character . . . I declare that the foregoing expression of my wish . . . shall not create any trust or legal obligation even if the same shall be communicated to the bank in my lifetime." S made no communication of his wishes to the bank during his lifetime and after his death certain memoranda were found, none of which could have any legal effect. It was held that the bank took the sums beneficially without any trust.

Insolvency—Adjournment of Public Examination.

By Section 15(3) of the Bankruptcy Act, 1914, the Court has power to adjourn the public examination of a debtor from time to time. In **Re Von Dembinska** (1954, 1 W.L.R. 748) the Court of Appeal held that under this sub-Section the Court may adjourn an examination generally with liberty to restore: it is not necessary to fix a firm date.

Miscellaneous—Rights of Tenants against Landlord's Mortgagees.

The case of the **Church of England Building Society** *v.* **Piskor** (1954, 2 W.L.R. 952) makes it more than ever necessary for persons to be cautions in lending their money upon mortgage if part of the value of their security depends upon their being able to obtain vacant possession. The facts were that P, who had contracted to buy a house, was allowed into possession before completion and she proceeded to grant a weekly tenancy of part of the house to H. At the time of this grant P of course had no legal title to the house and therefore, although by the rule of estoppel she could not herself dispute that H was her tenant, his tenancy would not be good against the freeholder. However, as soon as P did acquire a legal title to the house, then, in technical language, the estoppel would be fed and H's tenancy would be good not only against P but against anyone. On the same day as P completed her purchase and thereby acquired the legal title, she mortgaged the house under a deed which took away from her any power of granting leases. Later the mortgagees claimed possession and the question was whether they were bound by the tenancy granted to H by P.

In a similar case, *Coventry Permanent Economic Building Society* v. *Jones* (1951, 1 A.E.R. 901), Harman, J. had held that the completion of the purchase and the execution of the mortgage deed were in substance one transaction, and there was in law no interval of time between them; consequently the tenancy was not binding on the mortgagees. The Court of Appeal disapproved of this reasoning. It might be that in one sense the whole transaction was one transaction, but it consisted necessarily of certain defined steps which had to take place in a certain defined order. P. could not mortgage the house until she had acquired the legal title, but the acquisition of the legal title by itself made the tenancy legal. Therefore the tenancy was good against the mortgagees.

The Court added that on the facts in the *Coventry* case the decision of Harman, J. might be justified: if a mortgagee made it clear that he was only lending the money in reliance on a representation by the mortgagor that there was no tenancy and the tenant knew this before the purchase was completed, the tenant could not take advantage of his own wrong and set up his tenancy against the mortgagee.

THE SOCIETY OF
Incorporated Accountants

INCORPORATED ACCOUNTANTS' DINNER

A DINNER WAS GIVEN AT INCORPORATED Accountants' Hall on May 25, the eve of the Society's annual general meeting. The chair was occupied by the President, Mr. C. Percy Barrowcliff.

The names of those present were published in our June issue, on page 244.

The President, proposing the toast of " The Guests," extended a warm welcome to the presidents and secretaries of the various Branches and District Societies. Unfortunately, distance robbed them of the pleasure of the presence of representatives from the Branches and District Societies in South Africa, Australia, Canada and India, but they had them very much in mind.

The Council was conscious of the contribution of Branches and District Societies to the work of the Society, more particularly in the education of students. There was, however, much still to be done, for accountancy was one of the younger professions and had by no means reached full maturity.

He knew that all members present would share his particular pleasure in having their distinguished guests with them, especially in the surroundings of their own Hall.

He coupled with the toast the name of Lord Justice Birkett.

The Right Hon. Lord Justice Birkett replied in a delightful speech to the toast of " The Guests." What prescription, he asked, was there for the delivery of an after-dinner speech? Lord Jowett had advised him that an after-dinner speech should be given as a love-letter is written—with no forethought, on the inspiration of the moment and with no recollection after the event of what had been written or spoken. Or an after-dinner speech should be emphatic, like that of the American from California, who said that in his State there were 365 days of sunshine in every year, and that was a conservative estimate. Or it could be blunt and earthy, like that of the member at the farmers' club dinner, who said: " I gives you the toast of the guests, and I takes the opportunity of saying a few words about the feeding of pigs."

But, continued Lord Justice Birkett, there were no new stories in the world. They had all been told before, perhaps in different variants. During 40 years at the Bar and on the Bench he had heard many times the story of the three deaf participants in a legal hearing. The deaf plaintiff who opened the case by saying: " My Lord, this is a claim for rent "; the deaf defendant who replied: " My Lord, how can that be? I always grind my corn at night "; and the deaf Judge who said: " I have no doubt about my decision in this case: the woman is clearly the mother of both of you and you shall support her jointly." He had come across that same story only the other day in

the Greek anthology; it was more than 2,000 years old. Truly, there were no new stories in the world.

Hospitality was, he thought, a cardinal Christian virtue, and he thanked the Society for its hospitality and kindness to their guests in that beautiful hall.

INCORPORATED ACCOUNTANTS' BENEVOLENT FUND

THE ANNUAL GENERAL MEETING OF subscribers and donors to the Incorporated Accountants' Benevolent Fund was held at Incorporated Accountants' Hall on May 26.

Mr. Percy Toothill, Chairman of the Trustees, said that owing to the regretted death of Sir Thomas Keens, there was no President at the moment, so his first duty was to propose for election as President, Sir Frederick Alban. Sir Frederick had been a very generous subscriber to the Fund. They all knew Sir Frederick and no words were needed to recommend him.

Mr. R. Wilson Bartlett seconded the motion, which was carried unanimously, and Sir Frederick Alban then took the chair as President.

Sir Frederick Alban said that it was with the deepest sorrow that he referred to the great loss the Fund had suffered through the death of Sir Thomas Keens. He paid a high tribute to Sir Thomas's work for the Fund.

The Trustees had dealt with applications as generously as funds permitted, but the increasing number of applicants and the rising cost of living made it vital that members' support of the Fund should be not only maintained but increased. He appealed for more covenanted subscriptions. His motto as President of the Fund would be: "It is your money I want."

Sir Frederick acknowledged with gratitude the assistance received both from the Honorary Secretaries of District Societies and from individual members in dealing with applications. Personal interest and friendly counsel had greatly helped beneficiaries.

With great regret the Chairman of Trustees had received notification of Mr. Walter Holman's resignation as a Trustee. Mr. Holman who had given devoted service to the Fund for many years, had their warmest thanks and best wishes in his well deserved retirement.

Sir Frederick thanked Mr. Percy Toothill and his co-Trustees for their capable and sympathetic administration of the Fund. He moved the adoption of the report and accounts for the year 1953.

Mr. Percy Toothill seconded the motion, and the report and accounts were adopted.

The President (Sir Frederick Alban) said he was grieved to have to report the death in the previous week of Mr. Walter Southwood Smith, who became a member of the Society in 1892 and was the original Honorary Auditor of the Fund from 1895 to 1947, when he resigned his membership. On his resignation as auditor he was elected a Vice-President to the Fund. It was interesting to recall that he was the original Secretary of the London Students' Society on its foundation in 1890.

Mr. C. J. B. Andrews proposed and Mr. C. M. Foxon seconded the re-election as Vice-Presidents of Mr. A. Hannah, Mr. William Strachan, Mr. W. McIntosh Whyte, Mr. A. A. Garrett, Mr. George William Chapman, Mr. C. D. Gibson and Mr. A. P. Rivers. This was carried unanimously.

Mr. J. L. Hughes expressed the thanks of all present to the retiring Trustees, and proposed that Mr. Percy Toothill, Mr. R. M. Branson, Mr. R. Wilson Bartlett and Mr. E. Cassleton Elliott be re-elected.

Mr. P. D. Pascho seconded the proposition, which was unanimously adopted.

Mr. R. Wilson Bartlett proposed the election of Mr. C. Percy Barrowcliff to fill the vacancy caused by the resignation of Mr. Walter Holman. This was seconded by Mr. Percy Toothill and carried unanimously.

Mr. James A. Allen was re-elected Honorary Auditor of the Fund, with a vote of thanks for his past services. This was proposed by Mr. C. R. Riddington and seconded by Mr. R. A. Hamilton.

On the motion of Mr. James S. Heaton, a cordial vote of thanks was accorded to Sir Frederick Alban for presiding at the meeting.

SIXTY-FIRST ANNUAL REPORT

The trustees record with deep regret the death of Sir Thomas Keens who had been President of the Fund since 1943. Sir Thomas had always taken a keen interest in all aspects of the work of the Fund, and all associated with it mourn the passing of a very distinguished Incorporated Accountant who had a remarkable record of public service.

The revenue of the Fund for 1953 at £4,294 shows an increase of £553 over that for 1952, but this is due entirely to increases of income from investments and tax recoveries, the subscriptions having fallen slightly. The rules of the Fund only permit the Trustees to spend in one year the income derived in the previous year from subscriptions and dividends from investments, and the following are details of such income received in the last five years:

Year	Subscriptions	Dividends from investments and tax recovered from dividends and covenanted contributions
	£	£
1949 ...	1,970	1,353
1950 ...	1,984	1,204
1951 ...	2,346	1,125
1952 ...	2,460	1,281
1953 ...	2,445	1,849

The Trustees express their warm thanks to all contributors and gratefully acknowledge the following gifts and legacies: Executors of F. W. Buzzacott (deceased) (third instalment), £214; Fitton Will Trust (fourth grant), £105; Mr. H. W. Long, F.S.A.A., £50; South African Western Branch, £31; Incorporated Accountants' Lodge, £26.

During 1953 five new applications were received and 41 beneficiaries were helped by the Fund. The rising cost of living has necessitated a general increase in the amount of individual grants, and this fact, coupled with the limited funds at the Trustees' disposal, made it impossible for Christmas gifts to be given to beneficiaries on the scale of former years: the amount available and disbursed in the form of Christmas gifts in 1953 was £425 compared with £925 in 1952. The Trustees made this reduction with the utmost reluctance, and they earnestly appeal to all members to make a regular contribution to the Fund, preferably under a deed of covenant which of course greatly enhances the value of the contributions.

An analysis of the grants made during 1953 is given below. It will be observed that much of the help given by the Fund is directed to the education of children. In two cases the Trustees have co-operated with the R.A.F. Benevolent Fund in sharing educational fees and in another case the cost of a university education is shared with a local authority.

Grants made during the past five years were as follows:

Year	Amount disbursed in grants	No. of Beneficiaries
	£	
1949 ...	2,432	31
1950 ...	3,015	36
1951 ...	2,794	30
1952 ...	3,280	39
1953 ...	3,640	41

Once again, the Trustees wish to record their warm thanks to Honorary Secretaries of District Societies and other Incorporated Accountants for the numerous ways they

have facilitated the administration and usefulness of the Fund.

Mr. James A. Allen, Incorporated Accountant, London, has indicated his willingness to continue in office as Honorary Auditor and the Trustees desire to record their warm appreciation of his past services.

Grants made during 1953:

	No. of Cases	Total Grants £
Widows and dependants of deceased members ...	19	1,796
Educational support of children	15	1,430
Members or former members suffering from infirmity or in straitened circumstances	7	414
	41	£3,640

EVENTS OF THE MONTH

July 8 and 15.—*London:* "Auditing Theory." Vacation Seminars for students, addressed by Mr. E. H. Davison, Chief Accountant of Courtaulds Limited. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

July 22 and 29.—*London:* "Accounting Theory." Vacation Seminars for students, addressed by Mr. H. Norris, A.C.A., Director and Group Co-ordinating Accountant of J. Arthur Rank Organisation, Ltd. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

EXAMINATIONS—NOVEMBER, 1954

THE SOCIETY'S EXAMINATIONS WILL BE held on the following dates:

Preliminary: November 9 and 10, 1954.
Intermediate: November 11 and 12, 1954.
Final: Part I. November 9 and 10, 1954.
Part II. November 11 and 12, 1954.

The Centres will be Belfast, Birmingham, Cardiff, Dublin, Glasgow, Leeds, Liverpool, London, Manchester, Newcastle upon Tyne and Southampton.

Completed application forms, together with all the relevant supporting documents and the fee (Final, Part I, £4 4s.; Part II, £4 4s.; Parts I and II together, £7 7s.; Intermediate, £4 4s.; Preliminary, £3 3s.) must reach the Secretary at Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2 not later than Monday, September 20, 1954.

Candidates are asked to obtain application forms from the Honorary Secretary of their Branch or District Society.

DISTRICT SOCIETIES AND BRANCHES

IRISH BRANCH

ANNUAL REPORT

DURING THE YEAR THE SOCIETY SUFFERED a great loss by the death of Mr. Norman Booth, of Belfast, who was a member of the Branch Council for many years until his resignation in 1951, and a past-President.

The membership has been steadily increasing, and now numbers 84 Fellows and 245 Associates, a total of 329.

The four Students' Societies in Dublin, Belfast, Waterford and Cork have each had a successful programme of lectures and other events throughout the year. Once again, the Council wishes to record its appreciation of the work done by the Officers and Committees of these Societies.

At the examinations held in Dublin and Belfast in 1953, twenty-three students completed the Final Examination, nineteen passed in one Part, and thirty-five passed the Intermediate.

The following candidates are congratulated on the award of the Irish Jubilee Prizes for 1953: Mr. T. F. White, Waterford (Final) and Mr. K. D. Yates, Belfast (Intermediate).

Various social and other functions have been held at the different centres.

The Council submitted evidence to the Company Law Reform Committee and to the Industrial Taxation Committee, established by the Government of the Republic of Ireland.

SOUTH AFRICAN (EASTERN) BRANCH

THE TWENTY-SIXTH ANNUAL GENERAL meeting of the South African (Eastern) Branch of the Society was held in Durban on April 23.

Mr. B. Halsey, the Chairman, moved the adoption of the report and accounts. This was seconded by Mr. R. Abrahams and carried unanimously.

The retiring auditor, Mr. F. E. Osborn, and the retiring members of the Committee were re-elected.

Mr. G. C. Saunders proposed a vote of thanks and appreciation for the work of the Committee. This was carried unanimously. The members also accorded a vote of thanks to Mr. Halsey for his services as Chairman of the Branch, and to Mr. A. R. Butcher for his work as Honorary Secretary.

At a subsequent meeting of the Committee, Mr. B. Halsey was unanimously re-elected Chairman of the Branch.

SOUTH AFRICAN (NORTHERN) BRANCH

THE FIFTY-SECOND ANNUAL GENERAL meeting was held in Johannesburg on April 2.

The Chairman, Mr. A. L. Galloway, referred to the increase in the membership of the Branch and in the number of articled clerks. The Committee was concerned at the poor examination results and was considering whether candidates could be helped by coaching or by special lectures.

They were grateful to Mr. N. Glen for the time and consideration he had given to his work as the Society's representative on the Public Accountants' and Auditors' Board. The nomination of Mr. A. R. Butcher to succeed Mr. Glen had now been approved by the Minister.

Mr. Galloway welcomed the new Branch of the Society which had been formed in the Central African Federation. Every encouragement had been given by the Northern Branch.

A sub-committee had been formed to keep members advised of important developments in accounting practice in other parts of the world.

SOCIAL GATHERING

The annual social gathering was held on May 13. It provided a welcome opportunity for exchanges of views between members and clerks, as well as for games and sports. The competitions were won by Mr. D. Worthington and Mr. J. N. Bunting (tennis); Mr. J. G. Sargent (golf); and Mr. L. N. Cook (bowls).

The Chairman of the Branch, Mr. A. L. Meeser, presented the prizes.

BRADFORD

ANNUAL REPORT

THE MEMBERSHIP TOTALS 523, COMPRISING 95 members in practice, 205 not in practice, and 223 students.

A dinner-dance was held in October. It is hoped to make this an annual event. The golf competition took place in October.

Sixteen students have passed the Intermediate Examination and thirteen the Final.

Students' Section. Twelve lectures were arranged, and agreements were made with the Leeds Incorporated and Bradford Chartered students for attendance at their lectures. A week-end course was held shortly before the May examinations: this

experiment was successful. Social events included a dance and two coach outings.

DEVON AND CORNWALL

ANNUAL REPORT

THE COMMITTEE HAS AGAIN DISTRIBUTED the lectures over as wide an area as possible. A successful dinner was held at Torquay in November 1953; Professor F. Sewell Bray was the principal guest.

A committee was appointed to report on the working of the Companies Act, 1948. Its report has been passed to the parent committee.

Six students are congratulated on passing the Final Examination during the year, and six on passing the Intermediate.

EAST ANGLIA

ANNUAL REPORT

THE MEMBERSHIP IS 285, COMPRISING 165 members and 120 students.

Seven meetings were held at Norwich during the year and six at Cambridge.

The District Society dinner was held on October 21 and reported in the December issue of ACCOUNTANCY. At an informal reception on November 19, Professor F. Sewell Bray gave a talk on the activities of the Incorporated Accountants' Research Committee.

MANCHESTER

A STUDENTS' RESIDENTIAL REFRESHER course will be held at Hulme Hall, Manchester, from April 15 to 18, 1955.

Students from the areas of other District Societies will be welcomed. It is hoped that members in practice will encourage members of their staffs to attend.

The charge for the course is £3 5s.

NEWCASTLE UPON TYNE

ANNUAL REPORT

IN NOVEMBER, 1953, A RADIOGRAM WAS presented to Mr. J. E. Spoors in recognition of his services as secretary for twenty years.

Mr. C. C. Fleetwood was awarded the O.B.E. in a recent Honours List.

The membership is: Fellows and Associates 329, students 366, a total of 695.

The District Society is represented on the Accountancy Advisory Committee at King's College, under the universities scheme, and on the following Chambers of Commerce: Newcastle and Gateshead, Sunderland and Tees-side.

The District Society's library has been discontinued and arrangements made with Newcastle Central Library, Technical and Commercial Department, to provide reference library facilities.

W. Bunn was awarded the Fourth Certificate of Merit in the Final Examination in November, and R. W. Kell the Seventh Certificate of Merit in May 1953. In addition, 26 students passed the Final and 23 the Intermediate.

Mr. J. Telfer has found it necessary to resign from the Committee, after thirty-four years' service as secretary and committee member.

A successful luncheon club was inaugurated and held monthly meetings through the winter months.

Thirteen lectures were held at Newcastle, eight on Tees-side, and five in Cumberland. One lecture at Newcastle and one on Tees-side were given to members only, and it is proposed to continue this practice. A successful dinner-dance was held at Carlisle.

The Committee have re-elected the following officers for 1954-55. President, Mr. J. E. Spoors; Vice-President, Mr. A. Boyd; Hon. Secretary, Mr. J. S. A. Peffers.

NORTHERN IRELAND

AT THE ANNUAL GENERAL MEETING ON May 18 of the Incorporated Accountants' District Society of Northern Ireland, the President, Mr. H. F. Bell, F.S.A.A., expressed the hope that effect would be given to the recommendations of the Royal Commission on Taxation which would help to smooth out the steep graduations of direct taxation.

The report and accounts were adopted. The retiring members of the Committee were re-elected and Mr. A. S. Courtney, F.S.A.A., was re-appointed Honorary Auditor.

At the subsequent Committee meeting, Mr. J. D. Radcliffe, M.COM.SC., F.S.A.A., was elected President and Mr. H. W. Garland, F.S.A.A., Vice-President. Mr. R. J. Neely, A.S.A.A., was re-elected Hon. Secretary and Treasurer.

REPORT

The total membership is 335, including 35 Fellows and 29 Associates in practice; 17 Associates employed in the profession; three Fellows and 45 Associates in Government Departments, public bodies and commercial firms; and 206 students.

During the year the Society suffered loss by the death of Mr. Norman Booth, a past-President and an original member of the District Society and a past-President of the Irish Branch. He took a deep personal interest in the Society's affairs and was held in high esteem by his associates.

Four luncheon meetings were held, with talks by various speakers. The annual golf outing took place in September and a ball was organised by the Students' Society on December 18.

A Research Committee has been formed under the chairmanship of Mr. A. Harbinson.

A board inscribed with the names of past-Presidents of the District Society has been installed in the library.

The Students' Society, with Mr. J. Ross, A.S.A.A., continuing as President, held seven meetings.

Eight candidates passed the Preliminary Examination in 1953, nine the Intermediate, four Part I of the Final and six Part II. The Irish Jubilee Prizes were awarded to Mr. Thomas White, Waterford (Final), and Mr. Kenneth D. Yates, Belfast (Intermediate).

WEST OF ENGLAND

THE ANNUAL GENERAL MEETING WAS HELD on May 31 at The Royal Hotel, Bristol. Mr. Harold F. Leach, R.D., President, was in the chair.

The annual report and financial statement were approved and adopted upon the proposition of Mr. R. F. Emmerson, seconded by Mr. V. G. Mundy.

The retiring members of the Committee were re-elected, except Mr. F. E. K. Conway who wished to resign. The President paid tribute to Mr. Conway, and it was unanimously agreed that a letter of thanks be addressed to him.

Mr. John S. W. Bernard was re-elected Hon. Auditor, with a vote of thanks for his services during the past year.

On the motion of Mr. Ivor P. Ray, a vote of thanks to the President for his services to the District Society was carried with acclamation.

At a subsequent Committee meeting, Mr. Harold F. Leach, R.D., was re-elected President and Mr. F. P. L. Roberts, Vice-President. Mr. F. C. Smailes was re-appointed Hon. Secretary and Treasurer.

REPORT

The membership is 430, including 52 Fellows, 191 Associates and 187 students.

Twelve lectures arranged by the Students' Section were held in Bristol during the year. Students have a general discussion after each meeting: this has been found of great use.

Local sub-committees arranged meetings in Gloucester, Swindon and Taunton.

Eight students were successful in the Society's Final Examination, and 18 in the Intermediate.

The jubilee dinner of the District Society was held on November 26.

Liaison is maintained with the Central Youth Employment Executive and with schools for recruitment of junior staff.

Various memoranda on research have been submitted to the parent Society. The Committee thank members of the District

Society who are actively co-operating with the parent Society's Research Committee.

Mr. F. E. K. Conway wishes to retire from the Committee. Thanks are due to him for his work.

MEMBERSHIP

THE FOLLOWING PROMOTIONS IN, AND ADDITIONS to, the membership of the Society have been completed during the period March 4, 1954 to June 8, 1954.

ASSOCIATES TO FELLOWS

AGER, Joseph (*Clements, Hakim & Co.*), London. BAILEY, Reginald Ernest Edward William (*L. H. Benten & Co.*), Bishop's Stortford. BALL, Raymund, Chief Accountant, George Cohen, Sons & Co. Ltd., London. BANKS, Charles Robert, London. BITHREY, Stanley Arthur (*Leith, Freake & Cade*), Bloemfontein. BOCOCK, Cecil Norman (*Bocock, Jeffery & Co.*), Derby. BOORMAN, Victor Douglas (*R. H. Munro & Co.*), London. BOWSHER, Laurence Frank (*E. R. Syfret & Co.*), Cape Town. BYE, Leonard Charles, Middlesbrough. COX, Geoffrey William (*Peat, Marwick, Mitchell & Co.*), Johannesburg. DUNNINGHAM, Gordon Watson (*Stewart, Steyn & Co.*), Johannesburg. DUTHIE, Harold Cyril (*Alex. Aiken & Carter*), Johannesburg. ETESON, Leonard (*Cryer & Kitchen*), Keighley. FICKLING, Kenneth Haydn (*Henderson, Griffiths & Co.*), Cardiff. GRAYSON, James Gomm (*Batty & Co.*), London. GUPTA, Munshilal Chitarmal (*S. Vaish & Co.*), Kanpur. HOOPER, Raymond Herbert (*Greenwood, Poulton, Maxwell & Co.*), Johannesburg. HURT, Harold (*Boaler & Flint*), Nottingham. JOHNSON, James Butterworth (*F. W. Coope & Co.*), Blackpool. JONES, Brynmor, Bridgend. LANE, Edward George (*Joy, Lane & Co.*), Weymouth. LANGDON, Fred Talbot (*Stewart, Steyn & Co.*), Johannesburg. LEWIS, Henry Charles Maple (*Beal, Young & Booth*), Eastleigh. LINKLATER, George Duncan (*James L. & F. S. Oliver*), Newcastle upon Tyne. MACFARLANE, Peter Stewart (*Douglas, Low & Co.*), Johannesburg. METCALF, Samuel John, Birmingham. MOFFAT, David Festus (*Festus Moffat & Co.*), Falkirk. NUTTALL, Eric (*F. W. Coope & Co.*), Blackpool. OHLSON DE FINE, Francis Joachim (*Maldwyn Edmund & Co.*), Johannesburg. PRITCHARD, Henry Maurice (*Thomson McLintock & Co.*), Birmingham. RAMSDEN, Clement Dales (*Deloitte, Plender, Griffiths, Annan & Co.*), Durban. SHERRY, Owen Joseph (*Stewart, Steyn & Co.*), Johannesburg. SLIPPER, Roy James Frederick (*Slipper & Co.*), London. STOCKS, William Henry (*W. H. Stocks & Co.*), London. WATERS, Richard Graham, London. WATSON, David (*Moir, Wood & Co.*), Perth. WEBSTER, Mark (*A. France & Co.*), Leeds. WHITELEY, George Firth (*Walter Dawson & Son*), Dewsbury. WINTERTON, Oswald Henry (*J. Craib & Winterton*), Pietermaritzburg. WOODS, Douglas Edward (*Stewart, Steyn & Co.*), Johannesburg.

ASSOCIATES

ARUNDELL, Victor Charles, with Milne, Gregg & Turnbull, London. BEALE, Gerald Montague, with B. de V. Hardcastle, Burton & Co., London. BOYCE, Dennis William, with Binder, Hamlyn & Co., London. BURCHELL, Graham George Mark, with Sweeting, Pearce, Davies & Co., Cardiff. BURY, Richard, formerly with T. Alan Gott, Blackpool. COLEMAN, Kenneth John, formerly with Clothier, Frost & Brown, Durban. EVANS, Maurice Roy, with R. F. Bryant & Co., London. FIELD, Kenneth Noel, with J. R. Davison & Co., Huddersfield. GODDARD, Terence Ivor, with J. & A. W. Sully & Co., Weston-super-Mare. HADFIELD, John David, with Douglas, Low & Co., Johannesburg. HOBBS, Robert William, with Porter, White & Manning, Southend-on-Sea. LAUBSCHER, Kenneth, with Hands & Shore, Cape Town. LYON, John Frederick, with Beal, Young & Booth, Southampton. MACK, John Glynn, with Peat, Marwick, Mitchell & Co., Newcastle upon Tyne. MANSELL, Peter George, with Rickard & Co., London. MORGAN, Robert William with Thomson McLintock & Co., Birmingham. NEWSOME, Jack, with Price Waterhouse & Co., Leeds. O'CONOR, Nicholas Joseph, with C. P. McCarthy, Daly & Co., Cork. PAGE, Noel Bernard, with George Mackeurtan, Son & Crosoer, Durban. PLUMPTON, Allan Lionel, with Keeling & Co., London. RIMMER, John Edward, with Edwards & Edwards, Dorchester. ROOME, John Colin, formerly with Saml. Thomson & Young, Johannesburg. SARTIN, Denis John, with Edwin G. Pulsford, Poole. SHAPLAND, Peter Michael, with Halsey, Button & Perry, Durban. SHUTTLEWORTH, Norman Frank, with John H. Nixon & Co., Manchester. STEELE, Jerrold Turner, with Curry, Carruthers & Company, Johannesburg. STONES, Ian Whitmore Devenick, with Halsey, Button & Perry, Durban. WALKER, Andrew Dudley, with Curry, Carruthers & Co., Johannesburg. WARD, Bryan Derek (*Kenneth T. Moore & Co.*), Luton. WESTON, Clifford Ronald, with Woodington, Bubb & Co., London. WRAGG, Charles Edward, with Barron & Barron, York.

PERSONAL NOTES

Mr. S. A. C. Keelan, C.C., F.S.A.A., has been installed as Mayor of Maidenhead for the year 1954-55.

Mr. William C. Stevens, F.S.A.A., general manager of the Exchange and Telegraph Co., Ltd., has been appointed chairman and managing director.

Mr. Thomas F. Watson, A.S.A.A., secretary of the Exchange Telegraph Co., Ltd., had become a member of the Board of directors and has been appointed assistant managing director.

Messrs. Swallow, Crick & Co., Incorporated Accountants, announce that their partnership at Spalding has been dissolved. The Peterborough office is being continued as before by Miss Freda C. Crick, F.S.A.A., Mr. Frederick J. Green, F.S.A.A., and Mr. Maurice A. Crick, F.S.A.A. The practice at Spalding, hitherto carried on by them in partnership with Mr. Reginald Varney, F.S.A.A., is now being conducted by Mr. Varney and Mr. W. B. Wilkins, A.C.A., under the firm name of Varney, Wilkins & Co.

Mr. R. Bromley, Incorporated Accountant, and Mr. S. Baines, Chartered Accountant, have commenced to practise as Bromley, Baines & Co. at 28 Waterloo Road, Wolverhampton. The partnership between Mr. Bromley and Mr. W. C. Sproson, F.S.A.A., in the firm of T. E. Lowe & Co., Incorporated Accountants, remains unaffected.

Mr. W. M. Lomax, F.S.A.A., has retired from the partnership of Messrs. Lomax, Clements & Co. and Arthur E. Green & Co. He is now a director of Harrison, Gibson, Ltd., Ilford, and its subsidiaries.

Mr. H. Bullard, F.S.A.A., and Mr. K. J. Chick, B.COM., A.S.A.A., are now practising in partnership under the style of H. Bullard & Co., Incorporated Accountants, at 167 Watling Street West, Towcester, Northampton, and at 24 High Street, Brackley, Northants.

Messrs. Mullens & Robinson, Port Talbot and Maesteg, have acquired the practice formerly carried on by Mr. B. H. J. Daniel, Chartered Accountant, at 78 Mansel Street, Swansea.

Messrs. Rowley, Gill, Hobbs & Glen, Wellington, New Zealand, have assumed as a partner Mr. R. G. White, who has been a senior member of their staff for a number of years.

Mr. R. I. Davies, A.S.A.A., has been appointed secretary and accountant to The Builders' and General Building Society, London, W.1.

Messrs. Hillier, Hopkins & Co., Incorporated Accountants, Hemel Hempstead and Hertford, have opened an additional office at 28 Station Road, Watford.

Messrs. H. N. Bostock & Co., Incorporated Accountants, have taken into partnership Mr. Eric Barker, A.S.A.A.

REMOVALS

Mr. Frederick G. Hall, PH.D., LITT.D., Incorporated Accountant, is now practising at 11 Ely Place, Dublin.

Mr. Frank Heald, Incorporated Accountant, has removed his office to 46 Jesmond Road, Newcastle upon Tyne, 2.

Mr. W. L. Chapman, Incorporated Accountant, announces that his office has been transferred to 39 King Street, Blackpool.

Mr. Brynmor Jones, Incorporated Accountant, has moved his office to National Provincial Bank Chambers, Adare Street, Bridgend.